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INDIAN ECONOMICS

By

KEWAL KRISHNA DEWETT
M.A., B.Com., Ph.D., P.E.S.
Convener, Board of Studies in Economics,
(East Punjab University)
Author : Modern Economic Theory

GURCHARAN SINGH
M.A., P.E.S.,
Member, Board of Studies in Economics
(East Punjab University)
Head of the Department,

Department of Economics,
Government College, Hoshiarpur.

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by

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Preface to Fourth Edition

It has been very encouraging that the third edition was exhausted in only a few months. A mere reprint could easily be brought out to meet the unsatisfied demand. We, however, resisted this temptation. We wanted, instead, to recast and rewrite the whole book in view of the far-reaching and fundamental changes that have taken place in the nature of our economic problems consequent on the division of the country and the attainment by her of an independent status. Besides, much dead-wood has been chopped off which has incidentally helped us to keep the size of the book within reasonable dimensions.

Every chapter of the book will be bound to bear the mark of this thorough revision. Latest available statistics have been incorporated throughout the book. Chapters on Agriculture and Currency and Exchange have been particularly rearranged and improved. We specially commend in this edition the discussion relating to Forest Policy and Administration, Hydro-electric and Multi-purpose Projects, Population Problem, Agricultural Planning, Abolition of Zamindari, Collective Farming, Agricultural Finance and Marketing, Recent Trends in Co-operation, Food Problem, Land Revenue Policy, New Industrial Policy, Production Crisis, Industrial Finance, Foreign Capital, Recent Labour Legislation and Social Security Measures, Transport Co-ordination, International Trade Organisation, Recent Trade Agreements, Reorientation of Fiscal Policy, Banking Reform, World Bank Inflation, Sterling Balances, I.M.F., Recent Provincial Finance, Budgets for 1949-50, and Progress of Refugee Rehabilitation.

We are confident that the improvements made in this edition will make the book still more popular with teachers and students.

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INTRODUCTION

Nature and Scope of Indian Economics

1. What is Indian Economics ? Much controversy has centred round the use of the term 'Indian Economics'. It was first used by Ranade in his lecture delivered on Indian Political Economy in 1892 in the Deccan College, Poona The term 'Indian Economics' lends itself to several interpretations

It may mean a study of Indian Economic Thought in the past and in the present. But the field of Indian Economic Thought is still largely unexplored. The relevant material is very meagre. If we try to trace the history of Indian Economic Thought we shall come across so many gaps that we may have to give up the attempt as futile. Some ancient Hindu Shastras, notably Kautilya's *Arthashastra*, do abound in ideas which may be termed economics, yet they relate to a certain period only, and no continuous development of Indian Economic ideas can be traced. Authentic and systematic treatment of the growth of economic ideas in India for the whole period of Indian history is still lacking. We cannot, therefore, identify the study of Indian Economics with the study of Indian Economic Thought.

The second possible meaning of the term 'Indian Economics' is that it is entirely a new science of Economics, radically different from the science of Economics said to be fathered by Adam Smith and fostered by the thinkers of the West Justice Ranade emphasized the utter inapplicability of western economic doctrines to Indian conditions. On account of the peculiar social structure of India with its caste system and joint-family system and the dominance of usage and custom instead of competition and contrast, the Indian, according to Ranade, was an antipode of the westerner. When Ranade thus thundered at western economic theory, we were in a mood of expectancy. It seemed that a new science was perhaps about to be born. But Ranade's sole object was to enter a strong protest against indiscriminate application of western economic theory to Indian conditions. There can be, in the very nature of things, no new science of Indian Economics, just as there cannot be Indian Mathematics, Indian Physics, etc.

Another possible use of the term 'Indian Economics' is that it is a study of general principles of Economics with illustrations from Indian economic life. But, while the usefulness, nay, the necessity, of illustrating economic laws from Indian life may be readily conceded, it must be pointed out that such a study of Economics will not turn it into Indian Economics. It will still remain a study of General Economics. Indian Economics with which we are now familiar, is entirely different.

Correctly speaking, the term 'Indian Economics' stands for the study of concrete Indian economic problems as distinguished from an abstract study of the general principles of Economics. India is faced with many urgent economic problems. It is the purpose of the study of Indian Economics to show how these problems have arisen and to suggest a solution which may take India on the road to prosperity. Indian Economics has to study impartially the historical background of the Indian economic problem ; it has patiently to analyse the existing economic conditions and sympathetically to formulate a national policy in the best interests of the country.

2. Scope of Indian Economics. As is clear from the definition of Indian Economics given above, the scope of Indian Economics comprises the study and the solution of various economic problems that confront India. Indian Economics does not concern itself with the formulation of economic laws ; even the existing laws are only occasionally referred to. It is a concrete and a realistic study and not an abstract one divorced from reality. It studies the problems connected with Indian agriculture, trade and industry, the currency, exchange and banking systems of India. It also studies movements like the labour movement, the co-operative movement and the movement of prices. Natural and social environments and their economic bearing are also given careful consideration. Besides, we have to study the land revenue system, the transport system and public finance. Problems relating to rural indebtedness, foreign capital, fiscal policy are also carefully investigated. In short, we have to study, in Indian Economics, every phase of our economic life. It is indeed a very ambitious scheme of study.

It is ambitious in another way. It digs deep into the past ; it carefully analyses the present and strives to look into the future with respect to every problem that it studies. Its function does not finish when it has traced the probable causes of an economic problem. It must study the problem in all its important aspects, suggest a suitable policy to be pursued and foresee the probable consequences of such a policy. It is thus a study both broad and deep.

The study of Indian Economics is actuated by one dominant aim, *viz.*, to promote social welfare of the Indian people. It does not adopt an attitude of neutrality as the Classical economists like Cairnes and the new economists like Robbins do. The Indian economists are definitely partisans. It is the welfare of their own country that they seek, though not at the expense of any other country. Students of Indian Economics have thus steadily and constantly to bear in mind Indian national interests. But this is not to be construed as indifference to international movements. Indian economists are not isolationists. It only means that they are anxious to wrest for India whatever economic advantage they can. They put India above everything else and they are proud of it.

3. Utility of the Study of Indian Economics. Indian Economics deals with such varied and complex problems of Indian economic life that it enriches the mind. Such a study has a necessary place in mental culture. A person cannot claim to be a properly educated person unless he is conversant with the economic problems of his own country ; they are so vital. This study is essential for an intelligent appreciation of the issues that face us. Many an educated person is simply puzzled when he sees the word inflation or cross-rate on the very first page of a daily paper. A study of Indian Economics will help him in this difficulty.

But apart from the cultural value of the subject, there is a real need for its study from another and a weightier point of view. India is passing through a very critical period of her history. India has after all realized its century-old dream of independence Democracy, if it is to be successful and if it is to work efficiently and for the real good of the masses in India, must be worked by legislators with a complete education. It must also be supported by a vigilant public. At present most of our legislators, with a few honourable exceptions, are blissfully ignorant of currency and exchange problems and problems connected with fiscal policy and public finance. What contribution can they possibly make towards their solution ? The predominant character of all legislation is economic. A study of Indian Economics is, therefore, an imperative necessity for all concerned.

Further, a crop of economic problems has arisen out of the war. Every educated person in India is expected to make some contribution to the solution of these problems. It is a part of our necessary equipment that we must be armed with the requisite knowledge of Indian economic affairs. Real freedom cannot come to India until her economic problems are satisfactorily solved.

CHAPTER I

THE GEOGRAPHICAL BACKGROUND

1. Geographical Influences on Indian Economic Life. 'A country is said to make its inhabitants.' We might amplify it by saying that the natural environments of a country have a profound influence on its economic life in all its aspects. Economic activities of a people are vitally affected by the natural forces operating in their country. The climate affects the efficiency of labour and determines the extent of the market for certain goods connected with food and clothing; it, together with rainfall and the nature of the soil, decides what crops will be sown. Physical features and river systems are the outcome of the peculiar geological structure of a country. All these put together determine the volume and the course of trade and industry which, in their turn, affect the government finances and the governmental activity. Thus all economic and political phenomena are the outcome of the natural environment.

But man may conquer nature. He has spanned the seas and cut the mountains , he has conquered the air ; he can travel under water ; distance has been annihilated by the fast means of locomotion. By electricity he has turned the night into day and toned down the rigours of climate Through his irrigation schemes, he has tried to secure his independence from Nature in the matter of rain. His soil reclamation schemes are intended to overcome the limitations imposed by nature of the soil ; European soil has been exported to the New World. Mighty forces of Nature have been harnessed into the service of mankind. These miracles of man will fill an epic.

This mastery of man over nature is not, however, complete and unquestioned. Nature has a knack of escaping from the chains and asserting her sovereignty. Air operations are hampered by weather conditions ; sea sometimes becomes ice-bound and no longer navigable ; a hailstorm or a flood may undo the work accomplished by human labour and ingenuity. An earthquake upsets human plans. Thus we have been able to conquer nature only partially and nature's influence on economic activity cannot be ignored and completely eliminated.

On the Indian economic life, nature's influence has been dominant. The Himalayas affect rainfall which, in its turn, governs agricultural operations throughout the country. The nature of the coast line and the land frontier have influence on the direction and volume of trade. Configuration and geological structure cause the mineral wealth of the country to be what it is, and they are also responsible for the resources of power available to Indian industries. Efficiency of Indian labour is, in no small measure, affected by Indian climate which also determines the fauna and flora of the country. Indian budget is said to be "a gamble in the monsoons". Thus Indian agriculture, trade ,industry, finances and what not, are all influenced by the natural environments of the country. Really it is difficult to think of any aspect of Indian economic life which is not directly or indirectly influenced by the natural factor.

2. A few Geographical Facts about India—Size, Location, etc. The first thing that strikes one is the vastness of the size of the country and its continental dimensions. The total area of undivided India was 15,74,000 sq. miles. Out of this Pakistan's share is 3,65,000 sq. miles and that of the Indian Union, including Hyderabad and Kashmir, is 12,09,000 sq. miles which represents more than 3/4ths of the total area of the undivided country. Even now the total area of India is 12 times that of Great Britain. India can contain within itself France, the U.K., Belgium, Holland, Germany, Denmark, Austria, Hungary, Switzerland, Spain, Portugal, Italy and Rumania. It is not only in size that she is big, she is the home of one-fifth of the human race. She is thus not a country but a continent.

Besides, India is a country which presents all types of contrasts Some of her regions are rainless, there are others which get the heaviest rainfall in the world. Her climate varies from the icy cold or temperate to the tropical. Malabar, with its tropical luxuriance, is a marked contrast to some treeless plains in East Punjab. Density of population varies from about 49 persons per square mile in Kashmir to 953 in Cochin State. Sandy deserts of Rajputana are a contrast to valleys like Kashmir.

But there is a unity underlying all this diversity. This diversity enriches our economic and social life and it places before us vast and almost unlimited potentialities of developing an economic life of infinite variety and richness. It is, therefore, a welcome contrast.

India's geographical location is exceptionally favourable. She occupies a central position in the Eastern Hemisphere. She is equally distant from the West through the Suez Canal, and from the Far East, as also equally distant from Australia and Africa. She thus undoubtedly occupies an excellent position for purposes of trade Nature obviously meant India to serve as a distributing centre fo a large volume of the world trade. In short, India seems to be marked out by nature to be a big and important country.

3. Three Natural Divisions. There are three well-marked natural divisions of India : (1) the Himalayan region ; (2) the Indo Gangetic plain ; and (3) the Deccan plateau with eastern and western coastal strips.

India is bordered on the North by the Himalayas—a continuou range of mountains 1,500 miles long and 100-250 miles broad. In their height, they have no parallel in the world. Their highes peaks are Mount Everest over 29,000 ft., Kinchingjinga nearly 28,00 ft., and Dharsladhar 27,000 ft. They have more than 140 peak higher than Mount Blanc which is the highest peak of Europe.[1] The Himalayas constitute almost a continuous defence wall, having only a few passes, few of which are less than 7,000 ft. high

The Himalayas are a big and valuable gift given to us by nature. This mountain range gives us rain; it is a mysterious source and feeder of numerous fertilizing rivers and streams, and it has an immense influence on the meteorological conditions of the country. It tones down the high temperature of our plains; it obstructs the cold dry winds from the North; it shuts the fertile and rich plains of India from the unwelcome and greedy gaze of hungry prowlers ranging abroad; its wealth of forests and pastures is simply priceless. It has given us valleys like Kashmir, which is a veritable heaven on earth.

The influence of the Himalayan range on the economic life of the country cannot possibly be exaggerated. But it is not merely a physical barrier between India and the countries beyond, it is also a social and cultural barrier, and it has made the Indian civilization unique. Such is the significance of the Himalayas to us.

4. The Indo-Gangetic Plain. Another striking and important feature of India is the Indo-Gangetic plain with its alluvial and fertile soil and its unfailing river system. It is one of the biggest level plains of the world being about 1,500 miles long and 150 miles broad. It is literally composed of the "dust" of the mountains.[2]

It is almost an uninterrupted level plain stretching from the Indus in the West to the delta of the Ganga in the East. The western part is arid and dry, and as we move from the West to the East, through the Punjab and the U. P., to Bengal, wheat and sugar fields give place to bamboos, palms and plantains ; and further East Assam is the home of thriving tea industry. The eastern part is greener, more picturesque and has an abundance of water.

This Indo-Gangetic plain is the richest source of the crops that India grows. It is here that flourishing agriculture is carried on to feed our industries with essential raw materials. The alluvial soil has made it possible for a splendid system of irrigation to be developed here. It was the richness of this plain that attracted Aryan hordes from Central Asia. The Gangetic plain is said to be the seat of the ancient Indian civilization. Livelihood here was earned without toil and man had leisure to turn to art and literature. It contains regions of very dense population and has given rise to big, prosperous and important cities. We can gauge the importance of this plain to Indian economic life from the fact that India is predominantly an agricultural country and this plain is the seat of Indian agriculture. The three rivers, the Ganga, the Indus and the Brahmaputra, that flow through it, are a great national asset.

5. The Deccan. The Southern natural division of India, called the Deccan, is rocky and broken. These are said to be the oldest

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[1] See R Dubey—*Economic Geography of India*, 1941 p. 24.

[2] Houlderness, T. W.—*People and Problems of India*, 1923, p. 34.

Indian rocks; they were there when the rest of India was supposed to be under water; the average height of the plateau is 2,000 ft. above the sea level. The higher western and eastern edges of the plateau are known as the Western Ghats and the Eastern Ghats. The Western Ghats are steeper. They rise to an average height of 4,000 ft. after leaving a thin strip of plain along the coast. The Eastern Ghats are, on the other hand, less steep and less high and leave a little broader plain along the coast line. Most of the rivers of the Deccan rise in the Western Ghats ; those that flow towards the west are short and fast, and those that flow towards the East are longer and flow a little slowly.

It is in the Deccan that black cotton soil occurs, which, in the valleys, is particularly fertile. Many a rich crop is grown here. The deltas of Krishna, Godavary and Cauvery are very productive. Towards the extreme south, in Malabar and Tanjore, we meet with tropical luxuriance. This ancient part of our land has made no mean contribution to the infinite variety and richness of our economic life.

6. Climate. One of the most important factors that influence the economic life of a country is the climate. The distribution of natural vegetation, the fauna and flora, the working capacity of man, human wants, and the location and distribution of industries, are some of the consequences of the climatic factor.

India, as a whole, has a tropical monsoon type of climate. However, India can be divided into a number of climatic regions on account of the differences in the distribution and season of rainfall and the effect of altitude on temperature.

Thus India has a cool climate in the hills and the extreme North, but hot and dry in the plains, with a wide range of temperatures varying from 50°F in some parts in the North and 116°F and above in places like Bhatinda in East Punjab and hot and moist in the South-West with temperature more or less uniform. In some parts even the daily ranges in temperature, humidity and pressure are quite striking. All the same, India has a climatic unity.

We owe it to our climate that we can grow such a large variety of crops and lay the foundation of many a prosperous industry. It is our climate which makes the goal of economic self-sufficiency appear within our reach, if we wish to pursue it. But Indian climate is said to have an enervating influence on the human system; it makes the people listless, lethargic and incapable of a vigorous and sustained effort. It is said that a tropical mind is a sleepy and an inert mind. But we should not exaggerate this adverse influence of our climate and attribute our economic backwardness to it. It is under a similar climate that Indians in ancient times reached the pinnacle of glory in the realm of art and literature, medicine, trade and industry, etc. For the causes of our economic backwardness, therefore, we must look elsewhere.

7. Rainfall. The importance of rainfall to an agricultural country like India can hardly be exaggerated It is not for nothing that an Indian peasant in a difficulty always looks above for relief. The God of an illiterate Indian is supposed to reside in the clouds. Rain must be timely, it must be sufficient, but not too much, and it also must be evenly distributed. Failing any of these things, the Indiain farmer faces misery. Indian rainfall is said to show all the vagares of an oriental potentate. We must understand that failure of nature in this respect may spell ruin to millions of people who depend upon agriculture. But it is not only the agriculturists who suffer. Failure of crops means curtailing of demand for goods ; it means depression; it results in the reduction of Government revenue, which, in its turn, means contraction of Government activities and retrenchment. The effects are very far-reaching indeed and permeate the whole of our economic life. Sir Guy Fleetwood Wilson (ex-Finance Member) described the Indian budget as "a gamble in the rains", and he was perfectly right.

The rainfall in India shows considerable variations ; and its distribution is very unequal throughout the country. The average annual rainfall varies from about 10 inches in Hissar (East Punjab) to 460 inches in Cherrapunji. There are regions of very heavy rainfall like Assam, Eastern Bengal and Western Ghats ; there are regions of precarious rainfall as in East Punjab, Bombay and the U.P.; and then there are regions of deficient rainfall or drought as in some Southern parts of East Punjab, Sind and Rajputana.

Most of the rain in India comes from the monsoons : the Arabian Sea monsoon, and the Bay of Bengal monsoon ; and they are the cause of 90 per cent of the rainfall in India. Indian rainfall not only varies from place to place but the intensity of the monsoon varies from year to year. Out of a cycle of five years, it is said, one is good, one bad and three neither good nor bad. In one year the current may be too strong and cause floods, and in another year it may cause drought. But a remarkable feature of our rainfall is that it is seasonal. London, for example, gets 24 inches of its annual rain in 161 days in light drizzles leading to considerable sinking, while Bombay's 71 inches come in 75 days only.[1] Thus most of our rain-water coming in torrents is washed down and wasted. It leads to soil erosion and floods with all their disastrous consequences.

Apart from the fact that India has got a certain season of rainfall and it mostly falls in summer months, some rainfall also occurs in winter especially in the North West These winter rains are very useful and essential for winter crops like wheat. Failure of these rains is no less a cause of famine in India than the failure of the summer monsoon.

8. Season. Seasonal variations have an intimate bearing on economic life. Diet and dress depend upon them. They are, therefore, of no slight importance in determining the demand for agricultural and industrial goods. Agricultural production, too, depends on seasons.

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[1] Dubey R—*Economic Geography of India*, 1941, p. 2.(a).

There are three well-marked seasons in India with a short period of transition intervening between them. We have winter from November to February, which is comparatively dry and rainless, though East Punjab gets rain in winter too ; next there is the hot dry summer from April to June, March being the transitional month ; then follows the rainy summer season from July to September, October being the transitional month. There are some variations to be met with as between the North and the South and the East and the West. For example there is a much greater severity of seasons in the North than in the South.

9. Soils. Indian soils can be broadly divided into three classes :—

(1) *The Alluvial Soil.* It occurs in the Indo-Gangetic plain, the coastal strips of the Eastern and the Western Ghats and the Summer Valley in Assam. The total area of alluvial soil has been estimated at about 3,00,000 sq. miles. It is soft, deep and porous and can retain moisture. It has been fertilized by the washings of the rivers and it is consequently suitable for growing a large variety of crops.

(2) *The Deccan Trap Soil.* It covers practically the whole of the Deccan and has an area of roughly 2,00,000 sq. miles. A greater part of Bombay Presidency, the whole of Berar, western C.P. and Hyderabad show this type of soil. On the hills the soil is thin and hence poor and unproductive ; but down in the valleys of the rivers it is deep and remarkably fertile and can grow a rich variety of crops, especially cotton. Being retentive of moisture it renders irrigation practically unnecessary.

(3) *The Crystalline Soil.* It occurs in the whole of Madras Presidency, south-east of Bombay Presidency, Orissa, Chota-Nagpur, the major portion of the C.P., half of Hyderabad, Central India and some districts of Bengal and the U.P. This soil is also called laterite as it lies adjacent to laterite rocks. Where rainfall is favourable or irrigation facilities are available, it yields a fairly large number of good crops. It shows wide variations of depth, consistency and fertility.

In addition to these may be mentioned the desert soils which occupy large tracts in Rajputana and South Punjab. Then there are the alkaline soils known as *Reh* or *Kalar* in East Punjab. They "have a high degree of impermeability and "stickiness" together with high alkalinity and frequent presence of large excess of free salts." They are poor in nitrogen and humus, hence unsuitable for crop growing without supply of chemical fertilizers.

In recent years considerable work has been done in the classification and investigation of soil productivity. At the Imperial Agricultural Institute at Delhi a soil map of India has been prepared and an all-India scheme of soil survey has recently been launched.

Like other Indian economic problems, the problem of Indian soil, too, is peculiar. Our soil is dry, whereas the soil in many other countries is damp. Elsewhere, therefore, it is reclamation which claims the attention of governments, whereas irrigation is more important here.

10. Forest Resources. India has got a very valuable asset in her vast and varied forest wealth. The total area under forests in the provinces of the Indian Union is 86,269 sq. miles and in those of Pakistan 8,336 sq. miles. Only 13 per cent of the total area of the country is under forests. The ideal proportion to meet adequately the needs of the people is considered to be 20 to 25 per cent. As against this the forest area in the U P. is only 5 per cent, in East Punjab 6 per cent, Bihar 2·6 per cent, Orissa 6·2 per cent. The forest area in Madras is 12·2 per cent. and in Bengal 14 per cent, which also are inadequate. Only in Assam it is 38·6 per cent and in the C.P. 19·7 per cent, and in these two provinces, therefore, the position may be regarded as satisfactory.

The main types of Indian forests are :—

(*a*) Littoral forests to be found on the sea coasts ;

(*b*) The hill forests whose variety depends on the rainfall and elevation. They are to be found on the Himalayas, and the principal species are oak, pine, deodar, magnolia, etc.;

(*c*) The ever-green forests, which occur in the regions of heavy rainfall ; they consist of bamboos, palms, rubber, etc.;

(*d*) Deciduous forests to be found in sub-montane tracts consisting of sal, teak, shisham, etc.;

(*e*) Dry forests in East Punjab, Bikaner, etc., consisting mostly of *kikar* and other trees having thorny leaves.

11. Utility of Forests. Indian forests are a great national asset. Their utility to India is undoubtedly very great. They are Nature's insurance against floods. By preserving moisture they lessen the severity of drought. They also regulate the air currents. They add to the beauty of the countryside and improve the sanitary conditions. Their influence on climate is very wholesome.

Apart from these indirect economic benefits of the forests, there are several direct economic advantages too. The forests supply timber for building purposes and firewood for domestic and industrial purposes. They also provide raw materials for important industries like paper, match and lac. Besides, they yield several other valuable substances such as bark for leather tanning, gum, dyes, drugs and some food products from roots and fruits. They provide grazing grounds and fodder for cattle as well as shelter for bird and beast. Forest leaves are used as manure.

The forest produce is usually divided into two categories : (*i*) major products and (*ii*) minor products. The major products are timber and fire wood. The total value of the yearly production of timber and fuel-wood has been estimated at 375 million cubic feet and of timber alone nearly 290 million cubic feet. The important timbers are sal, deodar, teakwood, rosewood, Indian mahogony, shisham. There are about 30 varieties of timber in the market, each having about a dozen recognized grades. The timber is largely used for building purposes, in the construction of railway carriages and for sleepers, for building bodies of buses and for making furniture and agricultural implements.

Among the minor produce are included lac, resin, turpentine, essential oils, tanning materials, bamboos, grasses and herbs. The Indian paper industry uses bamboo, ulla and sabai grass for making different kinds of paper. It has been estimated that 35,000 tons of bamboo pulp and 25,000 tons of sabai pulp are consumed in this connection. A large quantity of timber is used for making splinters and boxes for the match industry. Of lac India has practically a monopoly. It is largely obtained from Central India, Orissa, Bihar, the C.P., Hyderabad and central Assam. Of the total output nearly 60 per cent is obtained from Chota Nagpur in Bihar. About 98 per cent of the total production is exported abroad, the U.S A., the U.K., Germany and Japan being our principal customers. Shellac, manufactured from lac, is utilized in the making of gramophone records, varnish and insulators. Resin, which is obtained from pine trees, is manufactured into resin and turpentine oil. Resin is used in paper making and soap making, and turpentine oil for varnish and medicinal purposes. *Myrobalan* is one of the most useful trees. It is especially useful in tanning and dyeing. Its wood is exported to several European countries. *Babul pods*, *mangrove* barks and *Turwad* barks are also used for tanning purposes. Our resources in bamboos, which are now a principal raw material for the Indian paper industry, are almost inexhaustible.

Only a part of our vast forest wealth has so far been put to economic uses. Most of the forests are inaccessible. Lack of cheap transport is the chief obstacle in the way of economic exploitation of our forests. The partition of India has further added to these difficulties. Timber can be cheaply floated down the rivers but the rivers by which timber could come from Kashmir are in Pakistan. Thus our forest wealth in Kashmir has now been bottled up.

In recent times several types of minor forest produce have assumed great economie importance. For example, sandal-wood oil is used in perfumery and margosa (*neem*) is used in making soaps specific for skin diseases. There are several herbs and drug plants which are being extensively used for preparing medicines.

The Forest Research Institute at Dehra Dun is doing valuable work in discovering new uses for our forest wealth. At present the most important problems that are engaging its attention relate to the use of wood for producing cheap printing paper, discovery of suitable wood for aircraft production and useful as battery separators and suitable woods for electrical purposes. Some progress has already been made in these directions. Co-ordination between forest exploitation and industrial planning is essential, if we are to make the best use of the vast and varied forest wealth of ours.

India is far from self-sufficient in timber. In 1939-40 it imported timber worth more than Rs. 2 crores. The World War II demonstrated our pitiful dependence on foreign sources for timber. There is a vast difference between what can be and what is. It is a sad commentary on our ability to use our natural wealth.

12. Forest Policy. For a long time reckless destruction of Indian forests continued. It "deprived the peasantry of wood for fuel and for building cottages, exposed agriculture to greater risks of drought, flood and soil erosion, and, on the whole, resulted in sterilization of the soil."[1] It was not realized that the preservation of forests or their scientific management was highly conducive to the economic and physical well-being of the country. This realization dawned on Government about the middle of the last century, when steps were taken for the setting up of forest departments. In course of time Central and Provincial forest departments were established.

The Forest Department controls more than one-tenth of the area of British India. The forests are classified as reserved, portected and unclassed. In the case of reserved forest areas, the Government exercises very strict control. In the case of protected areas the public has greater freedom in their use. In the unclassed areas the Government control is the least, and these areas are also not subjected to scientific management. This classification of forests is, however, defective. A better classification from the economic point of view will be something like : (*a*) areas that supply timber and fuel ; (*b*) areas useful for fodder ; and (*c*) areas that can be easily converted into agricultural lands.

The old forest policy in India was announced in 1894 and was based on the following principles : (1) That the retention of sufficient forest area to preserve the climatic and physical conditions of the country is a matter of primary importance ; (2) that the need for securing sufficient forests for the general well-being of the people comes next ; (3) that cultivation is of greater importance than forestry, but permanent cultivation must not reduce forest lands below the prescribed minimum ; and (4) that revenues should be realized to the fullest possible extent but only after meeting the requirements of the rural and the local population free or at concessional rates. For practical purposes the chief concern of the Government has been to increase the revenue as Sir Jogendra Singh, Member for Agriculture, Government of India, admitted in 1946. He said, "Too often forests have been looked upon as a source of profit which must be tapped as quickly as possible." A more positive policy is needed.

Forest policy has both social and economic aspects. It has to legislate on the rights of the users and also deal with silviculture, *i.e.*, growing trees in the most economical manner. Besides providing for stability in forest finance and uniformity of administration, the right forest policy must provide for (1) the supply of forest produce to the mass of the local consumers ; (2) the protection of land from erosion, floods and unfavourable climatic influences ; (3) the preservation of timber for building construction generally ; this and (4) the production of raw materials, both timber and other forest products for industries using wood. At present Indian forests are insufficient to meet these needs. A determined effort should be made to develop forest industries, like charcoal making, lac culture, making of resin and turpentine, preparing dyeing and tanning materials etc. Besides yielding income, they will incidentally reduce pressure on the soil. As the forest area in India is inadequate to meet our requirements, it is necessary to launch extensive afforestation schemes. Afforestation is also badly needed as an anti-erosion measure.

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[1] Nanavati and Anjaria—*The Indian Rural Problem*, p. 16.

13. **Mineral Resources.** A wrong impression seems to prevail among our people about our mineral resources. Some people seem to have an exaggerated notion of the quantity and quality of the minerals produced here. Let it be said at the very outset that our mineral resources are not so vast or unlimited as is sometimes supposed. But it is not to be supposed, on the other hand, that India's mineral wealth is scanty or meagre. Even in this respect we occupy a fairly respectable position.

We have plentiful ores of certain minerals, *e. g*, chromite, iron, cyanite, magnesite, manganese, mica, monazite, talc, titonium and zircon. We are more or less self-sufficient in arsenic, glass, sandstones, barium, bauxite, beryl, clays, cobalt, dolomite, feldspars, graphite, gypsum, limestone, nitrates, phosphates, salt, strontium, tungsten, and vanadium. But we are definitely short of, or totally lacking in, asbestos, bismuth, borates, bromine, cadmium, china clay, copper, fluorite, gold, iodine, lead, mercury, molybdenite, nickel, platinum, potash, radium, silver, sulphur, tin and zinc.

The partition of the country has not appreciably affected its mineral position. Pakistan's share includes some petroleum, a negligible quantity of coal though a considerable share of chromite and gypsum. She has none of the important minerals like iron, mica, copper and manganese.

A weakness of the Indian mining industry is that the mineral wealth of India has not been fully and scientifically exploited nor have the mines been worked exclusively for India's benefit. They have been largely worked for export purposes. This is not a wise policy, for it will lead to the depletion of India's mineral resources for the benefit of the foreigner. Our tariff policy must be directed towards discouraging of the export of metallic ores and retention of key minerals inside the country for the use of our own industries. We have also not tried so far to discover substitutes for minerals we lack.

The average annual value of the minerals produced exceeds Rs. 40 crores. Among the chief minerals produced in the country are coal, iron, manganese, copper, gold, silver, lead, mica, chromite, etc. Even sulphur is now available. A brief account of the important minerals is given below.

Iron ores. Some Indian iron ore deposits are considered to be the richest in the world, containing 60 per cent metal. In the British Empire, India is the second largest iron ore producing country. "Next to the U S.A. and France, India has the world's largest reserves of iron ore." They occur in Singhbhum, Keonjhar, Mayurbhanj. Bengal, C. P., Mysore and the Himalayas. It is estimated that they contain about three thousand million tons of iron. The Imperial Mineral Resources Bureau think that inexhaustible iron ore deposits lie in Salem and Nellore Districts of Madras Presidency. The annual production of iron ore is nearly three million tons. In 1946 it was 2·4 million tons nearly.

We are very fortunate in this that our iron ore deposits are situated in close proximity to the coal mines. So we are in a position to produce pig iron at a very low price. All iron ore deposits lie in the Indian Union and none in Pakistan.

Manganese. It is a very useful material and has been called the " jack-of-all-trades." It is required for enamel, porcelain, chemicals, plastics, varnish, glazed pottery, dry batteries, and what not. But its biggest consumer is the steel industry. Because our steel industry is not yet fully developed, most of the manganese produced in India is exported. Next to Russia, India is the largest producer. In 1946, the production was 255,000 tons nearly. The Indian iron and steel industry is able to consume only 60,000 tons in a year. Nagpur, Balaghat, Bhandra and Chhindwara districts in the C.P., some parts of Bombay Presidency, Mysore, Madras Presidency, Bihar and Orissa are the chief places of its occurrence. It is not to be found in Pakistan.

Copper. It occurs in Chota-Nagpur, Singhbhum, Rajputana, Sikkim, Kulu and Garhwal, and none in Pakistan. From the extensive tracings of old workings, it can be inferred that there was a flourishing copper industry in India in the past. All the deposits of copper are not workable, because some of them happen to be scattered in the form of grain. India's contribution to the world copper supply is indeed very slight.

Copper mining is largely confined to the copper belt of Singhbhum (Bihar) extending for 80 miles. At the end of 1938 the copper ore reserves were estimated at 850,300 short tons with an average content of 2·88 per cent metal. In 1946 the output was 353,000 tons.

Gold. In small, almost insignificant, quantities gold is widely distributed throughout India where it is obtained by washing the river sands. But the Kolar Gold fields in Mysore is the only important source yielding annually about 340,000 ozs. Other fields are those of Hutti in Hyderabad (Deccan) yielding gold worth a million sterling, and Anantapur in Madras yielding three-quarters of a million sterling ; but these are much less productive. The total production in 1946 was 132,000 oz. nearly.

Silver. Far from being a producer, India is the largest consumer of silver in the world. Only a small quantity, 25,000 oz., is got from the Kolar Fields. Her annual imports of silver are of the average value of £10,000,000.

Lead. The lead ore deposits occur in Madras, the Himalayas, Rajputana, and Manbhum and Hazaribagh in Bihar. But the total production of lead is almost insignificant.

Mica. Mica deposits occur in Ajmer, Travancore, Mysore and Hazaribagh in Bihar producing about 80 per cent of the total production and Nellore in Madras. Mica is extremely useful in the making of electrical goods. India has practically got the monopoly of mica in the world, producing about 75 per cent of the world's production ; nearly the whole of it is exported. In 1946, the total output was nearly 129,000 cwt.

Chromite. India is well blessed by nature with chromite deposits. It is an important mineral used for war purposes, and up to the last war it was mainly used as a refractory material. As we are still industrially backward, there is very little home demand for it. The Mysore State is the largest producer, other centres being Singhbhum, some parts of Bombay and Madras. Our average annual consumption is 6,495 tons. Nearly half of the total quantity of chromite is to be found in Pakistan. But with the manufacture of aeroplanes and motor-cars, India will be using more and more chromium.

Other Mineral Products. Besides the above minerals, India possesses deposits of several types of clay having a high degree of plasticity, which are useful for making pottery, tiles, pipes and high-grade porcelain. China clay deposits are to be found in Upper Gondwana, Bengal, Singhbhum, Mysore, Delhi and Jubbulpore. Fine clay of a high refractory quality is also available.

Then, there are various kinds of sands available in several localities in the U. P. and Baroda State, and they are very suitable for use in the glass industry.

We have got extensive and rich deposits of aluminium bauxite occurring in Assam, C. P., parts of Bombay and Madras Presidencies. But we have not tried so far, to any considerable extent, the reduction of bauxite into its metal aluminium.

Our sources of salt are also very considerable. Salt is obtained from sea water in Madras and Bombay Presidencies, from lakes in the interior, like the Sambhar Lake. The whole of the rock salt is to be found in Pakistan. Salt is a highly useful material for the making of chemicals. It is universally in demand for human and cattle consumption.

14. **Review of the Mineral Position.** India is the largest producer of mica. Her iron ore is of the richest quality and with the possible exception of Brazil, her resources in iron ore are the largest in the world. She is the second largest producer of coal as well as iron and steel in the British Empire. High-grade chromite is produced in large quantities in Baluchistan. We can safely conclude that our mineral resources can be counted upon for giving a fairly strong support to any scheme of industrialization that we may launch However, from the distribution of minerals it is quite evident that important minerals are mainly to be found in the north-eastern part of the Deccan plateau. Here they are mainly to be met with in the provinces of Bihar and Orissa. As a result of this factor, there is a great future, so far as industrialization is concerned, for these provinces Nevertheless the concentration of these minerals in the north-eastern corner of the country is likely to hinder the rapid industrialization in other parts as minerals on account of their bulk cannot be easily transported to distant regions. Most of the ores are being exported in a raw form at present, and we are not, therefore, making the best use of them. As industrialization gathers momentum, many deposits which are of little value now will assume importance. When a reasonable amount of our immense potential mineral wealth is worked up we can visualize India occupying a leading position in the world. Now that we are free we can expect that we shall be able to pursue a rational and planned mineral policy and put India soon prominently on the industrial map of the world. One thing must be done immediately, *viz.*, to stop the export of minerals in the raw state and instead put them into manufacturing processes at home.

15. **Power Resources.** Supply of cheap power is one of the most important requisites of industrial prosperity. India aspires to a high class industrialism. Let us see, therefore, whether she is properly equipped from the point of view of power for running the industrial machine.

There are several sources from which energy can be generated, namely, wood, wind, water, alcohol, oil and coal. Wind, which is being extensively used in the Netherlands, in Europe, has not been made use of here so far. Alcohol may be produced in large quantities as a by-product of sugar industry, but at present it is of little importance as industrial fuel. Wood is a fairly important source and was put to considerable use in the past. But its chief result was reckless destruction of the forests, and the industrialists had to look elsewhere. We are therefore left with petroleum, coal and water-power resources.

16. **Petroleum**. Although among the minerals produced in India petroleum occupies quite an important place in terms of value, *viz.*, the fifth, yet the quantity produced is utterly insufficient to meet her requirements. India's capacity to produce it is roughly 5% of her needs. About 300 million gallons of petroleum are imported every year. As a result of the partition, we have lost to Pakistan one source of supply, *viz.*, the western wing of the Himalayas, and we are now left only with the eastern wing in Assam. Of the total production of 97·5 million gallons in 1944, India's share was 82.3 million gallons and that of Pakistan 15·2 million gallons. In this region there are three important oil centres, *viz*, Digboi, Bappapung, and Hansapung. Petrol, jute, batching oil, lubricating oils, paraffin, wax and low grade kerosene are the principal products of the Assam fields. The insufficiency of mineral oil in India can, however, be made up by the production of synthetic fuel oils from sugarcane and oil-seeds. About a quarter million tons of molasses are every year thrown away by sugar factories and this can well be utilized for the manufacture of alcohol which, when mixed with petroleum, forms excellent fuel power for automobiles.

17. **Coal**. As A. Zimmerman remarks, "Coal serves modern industry in several basic ways: in the form of coke it is indispensable to the mass production of iron and steel; it is an important raw material of the chemical industry, and it is the most potent single factor determining the location of manufacturing industries. In spite of the growing importance of its more spectacular rivals, especially petroleum, coal remains the chief energizer of modern industry and continues to provide most of the power required to move overland the dry bulk commodities of present-day world commerce. At the same time it is the biggest pay load carried by rail, roads and ships. Modern machine civilization thus depends on coal as on no other commodity."[1]

Although India is the second largest coal-producing country in the British Empire and ninth in the whole world, yet considering the continental dimensions of the country, our coal resources are extremely limited nor are they satisfactorily located. The quality of our coal is very inferior on account of its high ash content and the presence of moisture. Also the coal deposits are very unevenly distributed. The problem of coal, therefore, is not one of production but of transport. At present our industries are suffering from transport bottleneck. One-fifth of the coal raised in 1947-48 lay at the pit-head. Due to intermittent supplies Tata's one blast furnace had to be closed and the textile mills worked two shifts as against three during the war. In the same manner other industries had to stop work and production suffered. Our coal mines are neither situated near the sea-coast as in England nor in the river basins as in Germany. Coal has, therefore, to be transported by rail and the cost is prohibitive.

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[1] Quoted by A. K. Sur in his *Natural Resources of India* (1942), P. 45.

The coal output in India in 1947-48 was 27 million tons. Pakistan's share is barely 3,00,000 tons. In the U.S.A. it was 456 million tons. Our *per capita* consumption of coal has been put at ·07 ton as against 4·75 tons in the U.S.A. which shows how backward industrially we are[1]. Jharia coal-fields accounted for a little less than 40 per cent and those of Raniganj for about 30 per cent. Nearly 90 per cent was derived from the coal-fields of Bengal and Bihar alone. Gondwana coal-fields supply nearly 98 per cent. Thus almost our entire coal supply is centred in one corner of such a big country. Coal is a bulky article and the cost of transport to certain industrial areas, as those of Bombay and Madras, is simply prohibitive. This imposes a serious handicap on industries in those areas.

We have been receiving in recent times repeated warnings of the probable exhaustion of our coal resources in the near future. Dr. C. S. Fox estimated in 1934 the total reserves of good quality coal at 5,000 million tons.

The Indian Coal Committee, in 1937, estimated, however, that the reserves of good quality coal would last 122 years and that of coking coal only 62 years.[2] Another expert has recently remarked that even with the imposition of restrictions on the use of good quality coal, India will experience a shortage of coal before the end of this century.[3]

It is possible that the geological surveys may lead to the discovery of some new deposits. The General Report of the Geological Survey of India for 1938 mentions the discovery in the Langrin area in Assam of new deposits of coal ore, the workable seam of which alone has a total reserve of 80 million tons. Dr. D. N. Wadia of the Geological Survey of India thinks it probable that a large extent of coal-bearing Gondwana rocks lie hidden underneath the great piles of lavas of the Deccan trap.[4]

But it is safe not to count upon these probabilities. The situation, as visualized by the experts, calls for serious thought. It is, therefore, necessary to economize and devise measures to make our limited resources of coal last as long as possible. We find, on the other hand, that we are very imprudently wasting our coal resources. Good quality coal, as it is very limited in quantity, should be used only for metallurgical purposes where inferior coal cannot be used. But as against this sane method, we find that good coal is being used for steam-raising purposes by railways and others. This is something very serious and calls for immediate attention. The blast furnaces in India are at present designed for the use of unwashed good quality coal. This must be rectified, and plants modified so as to be able to use inferior coal. In the meantime some other economic uses of the low grade coal can be found, *e.g.* oil, chocolate laxative, phenyl, etc., can be produced out of coal by carbonization. At present the biggest consumer of coal is the railways, iron and steel industry being the second and the two take off nearly 50 per cent of the total output of the country.

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[1] Wadia and Merchant—*Our Economic Problem*, p. 22.

[2] *Vide* Report, Vol. I, p. 63.

[3] Gee, E.R.—Records of Geological Survey of India, Vol. LXXV, Professional Paper No. 11.

[4] Wadia, D. N.—*Geology of India*, 1939, p. 339.

A lot of wastage also results from our methods of working the coal-mines. Mechanical appliances for screening, cleaning and loading are used to a very small extent, and mechanization of the underground processes has not made much progress. The Indian Coal Committee of 1937 remarked: "The coal trade in India has been rather like a race in which profit has always come in first, with safety a poor second; sound methods 'also ran' and national welfare 'a dead horse' entered, perhaps, but never likely to start."[1]

It is thus necessary to strictly enforce measures like sand-stowing for the conservation of our coal resources. It will be a great pity if we become destitute of coal while our iron ore resources are so vast.

18. Hydro-Electric Resources. We have seen that the power position in India is not satisfactory either from the point of view of wood or coal or petroleum. The Indian forests are inaccessible and even otherwise forests cannot last long if only wood were used as a source of power to meet the needs of modern industry. As for coal, not only is the quality of Indian coal poor but the quantity, too, is strictly limited and it is unevenly distributed. Petroleum too, is insufficient. But if nature has been niggardly to India in coal or oil, she has been almost lavish in her gifts of hydro-electric resources. There are immense possibilities for the development of hydro-electric energy, especially in regions distant from the coal-mines. Nature seems to have marked out in India two district zones: The 'coal zone' and the 'water zone'. The potential resources of water-power in India have been estimated at 27 million horse power. For every 1,000 feet of fall from the Himalayas, seven great rivers eastward from the Indus can produce three million horse power. This applies to other rivers too.

19. Economic Benefits of Electricity. Electricity is a great boon to a modern community. It is at once the cause and symbol of civilization. Inside the home it relieves a great deal of domestic drudgery. It gives better light and at less cost, and it is so convenient.

To the industrialist it provides cheap power at a place most convenient to him and in units he needs. The cost of generating electricity is estimated to be one-fourth as compared with coal, oil or fuel. But besides supplying power, electricity is essential in many industrial processes. For example, for making aluminium—the wonder metal of the 20th century from bauxite—electricity is indispensable for smelting the ore. As electricity can be economically transmitted to a distance of 250 miles, it can facilitate much-needed dispersal of industries from the congested and costly industrial centres to open areas. It makes winter hot and summer cool and thus considerably improve labour efficiency.

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[1] *Vide* Report, Vol. I, p. 30.

Electricity is especially beneficial to the small industrialists and rural craftsmen. In Surat about 5,000 looms, mostly owned by artisans, are operated by electricity. In Japan and Switzerland small-scale industries are all run by electricity. It can, therefore, be utilized in India as a potent weapon for the regeneration of cottage and small-scale industries.

In transport, too, electricity can be of incalculable benefit. Already in India electric trains run between Bombay and Kalyan. It has been estimated that the entire power now utilized on Indian railways can be generated from a single project like the Kosi, and the Indian railways consume seven million tons of coal every year.

In our rural economy electricity has a vital role to play. It can be used in lifting water from the wells and thus economize cattle energy. Already in some villages in East Punjab, the U.P. and Madras electricity is being supplied for this purpose. In France 95 per cent small farms, in Japan 90 per cent and in Holland 100 per cent farms have been supplied electricity from central service stations.[1] The 'tail water' can be utilized for irrigation purposes. Hydro electric schemes have been thus linked with important irrigation projects. Several multiple projects are either under construction or investigation in India.

Thus electricity is the foundation of the new Industrial Revolution. Statistics of world power production show that coal as a source of power is fast losing ground to oil and water-power resources.

20. Present Hydro-electric Installations. India is one of the pioneers in the world in the matter of hydro-electric installations. The first hydro-electric plant was installed at Darjeeling in 1897-98. Another hydro-electric project was completed in 1902 in Mysore State on the river Cauvery and for some time it was the longest transmission line in the world.

In Bombay Presidency there are three electrical installations managed by Messrs Tata and Sons, *viz.*, Lonvala, Andhra Valley and Nila Mula, having a combined capacity of 246,000 h p. They supply electricity to Bombay mills and electric trains at less than half anna per unit.

In the South the Pykara Hydro-Electric Works (Madras) have a capacity of 90,000 h.p. in addition to 30,000 h.p. from the tail water at a lower site. It has the highest head plant in the British Empire. Of the total demand for electricity, 60 per cent comes from textile mills and 15 per cent from other industrial establishments. Then, there is the Mettur Hydro-Electric Works which is considered to be the largest of its kind in the world. It has a capacity of 50,000 k.w. Other schemes operating in Madras are Annolley, Karteri and Munar. The Papanasam Scheme completed in 1944 has a capacity of 21,000 k.w. Pallivasal Project of Travancore State has also a similar capacity.

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[1] Nanavati and Anjaria—*The Indian Rural Problem*, p. 179.

The Mandi Hydro-Electric Works in East Punjab have a capacity of 118,000 k.w. a quantity more than sufficient to meet the requirements of the present generation in Delhi and East Punjab. Its 15,000 feet long steel mantled tunnel is a marvellous achievement.

In the U.P. there is the hydro-electric grid system, generating power from the Ganga Canal System and supplying electricity to the principal towns in the province. Another installation is at Naini Tal.

To Kashmir belongs the credit of having completed the second hydro-electric works in India. Electricity is generated at Baramulla on the river Jhelum and the plant has a total capacity of 26,000 h. p.

21. Review of Hydro-Electric Developments and Future Possibilities. In spite of her immense water-power resources and their strategic location, India has not been able to develop more than half a million kilowatts which represent 1.5 per cent of her water-power potential estimated to be 30-40 million kilowatts. What hampers the hydro-electric developments in India is the seasonal character of her rainfall which necessitates the building of costly dams to ensure continuous flow of water. Electricity is yet unknown to the common man in India and its supply is confined mostly to urban areas and a few villages. Calcutta and Bombay having 1 per cent of the population of the country consume 50 per cent electricity generated in India, and 50 per cent is consumed by the remaining 99 per cent of the population. Canada started developing her hydro-electricity three years after the first plant was set up in India. But today her installed capacity is 15 times that of ours, of the U.S.A., 29 times and that of the U.S.S.R. 45 times. Even comparatively small countries like France, Switzerland, Norway, Sweden and Japan each has a capacity 5 to 10 times the installed capacity in India. India today uses in a year as much electrical energy as the U.S.A. generates in a week. Over 42 per cent of this energy is used in the cities of Bombay and Calcutta while, if Ahmedabad and Kanpur are included, over half of India's total supply of energy is absorbed in four cities containing less than 1¼ per cent of the population of the country.[1] The *per capita* consumption of electricity is a paltry 9·2 k.w. in India as against 1,660 k. w. in the U.S.A., 1,944 k. w. in Switzerland, 2,100 k.w. in Sweden, 3,090 k.w. in Norway and 4,000 k. w. in Canada.[2]

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[1] Whittaker. 1948 ed p. 765.

[2] Central Board of Irrigation's Leaflet No. 5 *Hydro-Electric Development in India.*

The Government of India is now in dead earnest to convert our "water into wealth". A large number of multiple projects are now either under construction or in advanced stages of planning. They will provide not only electricity but also irrigation, flood control, navigation, fish culture and recreation facilities and new 'places of pilgrimage'. When all these projects have been completed additional electricity to the tune of 14 million kilowatts will become available and India will rank as the third largest country in the world in this respect, next only to the U. S. A. and the U.S.S.R.

The following is the brief summary of new hydro-electric developments :—

The Radcliffe Award threw East Punjab into an industrial deluge as most of the industries were situated in West Punjab. East Punjab is without coal or oil But rapid industrialisation is essential to place this infant border province on its feet. With this end in view, two irrigation-cum-hydro-electric schemes are being expedited, *viz* , the Nangal Project and the Bhakra Dam Scheme. The Nangal Project provides for a barrage across the Sutlej at a site about 40 miles from Rupar. The first power house is to be located at a distance of 12 miles from the barrage where a 98-foot fall will be utilized to generate electricity. Another power plant is to be installed at a distance of six miles from Anandpur. The total power available from the two power houses in this stage will be 1,40,000 k.w. It is proposed to add one more set of 24,000 k.w. in each of the two power houses, bringing the total installed capacity to 1,44,000 k.w. There is a possibility of constructing two more power houses, one at Rupar and the other a few miles down the Bhakra canal, 1 each capable of developing 15,000 k.w. firm power. This project is expected to take three years to complete and is estimated to cost Rs. 22 crores.

The Bhakra Dam site is about eight miles up the Nangal Barrage. The Bhakra power houses will generate 1,80,000 k. w. The tail water from these power houses will feed Nangal power houses No. 1 and 2. Bhakra Dam project will take about six years to complete and is estimated to cost Rs. 70 crores.

The Nangal Hydel System will supply electricity to 67 towns in East Punjab not only for lighting, heating and industrial purposes but also for tube-well irrigation in several areas like Ambala not served by canals. This will help in de-watering the water-logged areas, supply this water in dry tracts and create a proper balance between surface irrigation and sub-soil water level. It is also hoped that subsequently the trains running between Delhi and Amritsar will be electrified.

In the U. P. preliminary explorations have been carried out in connection with two ambitious power projects in Garhwal District, *viz.*, Marora Dam and Ram Ganga Dam. The former envisages the construction of a dam across the river Nayar and will generate 200,000 k.w. at Marora Dam and 32,000 k.w. at Byasghat. The scheme will cost Rs. 24 crores. The Ram Ganga project will have a peak production of 90,000 k.w. and from the tail water another 20,000 k.w. and will involve a total cost of Rs. 110.51 lakhs. The Sarda Hydro-electric Project in hand at present will generate 41,400 k.w. and will cost about Rs. 7 crores. The Mohammadpur Power House, which has been almost completed, has an installed capacity of 9,300 k.w. The Betwa Power Project is to be developed in two stages. The first stage will consist of a storage dam at Piprai on the river Naraini and the power station at Dhukwari costing Rs. 1.31 crores and generating 2,500 k.w. In the second stage will be constructed the Singhpura Dam which will cost Rs. 8 crores nearly and will take three years to complete. It will produce 4,500 k.w. The Gogra Power Project will generate in two stages 300,000 k.w. The Kothri Dam Scheme in the Garhwal District is expected to produce 5,000 k.w. The most important scheme contemplated is the Pipri Dam and Power Station Project. It comprises the construction of a dam across the river Rihand near Pipri in the Mirzapur District. The power house will have an installed capacity of 230,000 k.w ; it will involve a total cost of Rs. 29 crores and will be completed in six years. Another major scheme is the Jamuna Hydro-Electric Project. It will generate 40,000 k.w. in the first stage and 50,000 k. w. in second stage with the possibility of additional 47,200 k.w. and 72,800 k.w. respectively from May to October The Pindar Hydro-Electric Scheme will generate 40,000 k.w. firm power and 50,000 k.w. of seasonal power.

The Kosi Project is the most important project in Bihar. It envisages the construction of a dam, about 750 feet high, across Chatra gorge in Nepal. The power plant at the dam site will generate 1.8 million k. w. at 50 p.c. load factor. The approximate cost of the entire project will be Rs. 90 crores.

In Bombay a big hydro-electric project known as the Koyana Valley Power Grid is proposed. The site is at a distance of 40 miles from Karad (M. & S M.Railway) station in the Satara District. It will have one of the biggest generating units in India, *viz.*, more than 250,000 k.w , and cost Rs. 25 crores. The Kalinandi Hydro-Electric Project that commenced work in January 1947 will make 350,000 k.w. available.

In C. P. and Berar there are four sites for hydro-electric development which will be completed in five stages and when completed will provide 100,000 k.w. of continuous power or 200,000 k.w. at 50 p. c. load factor. The total cost is estimated to be Rs. 20 crores.

In Madras the Pykara Plant Extension Third Stage was sanctioned in 1946 to meet increased demand for power in the Pykara areas as well as the seasonal and emergency deficiencies of the Mettur and Papanasam Systems. It provides for an installed capacity of 212,000 k.w. and the estimated cost is about Rs. 2 crores initially and Rs. 3.6 crores at the end of the 10th year. The Moyar Hydro-electric Scheme is designed to utilize the tail water of Pykara Power

House. The Ramapadasagar Project and the Kistna Power Project will also produce some electricity.

In Orissa there is a plan for the unified development of Mahanadi Valley. It comprises of three units, *viz.*, the Hirakud Dam Project, the Tikarpara Dam Project and the Naraj Dam Project. The three units can be developed independently and still form integrated parts of one plan for the whole basin. The Hirakud Dam will ' halter the wild Mahanadi river" by a dam at about nine miles upstream of the town of Sambalpur. The project will generate 350,000 k.w. and is estimated to cost Rs. 48 crores nearly. The flow of the Mach Kund at Duduma Falls can also be utilized to generate 100,000 k.w.

The Damodar Valley Project is the most important scheme in West Bengal and will generate 300,000 k.w. It will cost about Rs. 55 crores. The Central Government have passed an Act for the formation of an autonomous Damodar Valley Corporation. The construction work has already commenced. Besides, there is Jaldhoka Hydro-electric Scheme having a capacity of 10,000 k.w. in dry weather and 17,000 to 33,000 k.w. during the monsoon. This will meet all the tea factory loads.

Besides these major schemes, there are several others which are being launched or are under consideration in other parts of the country. There are eleven sites in Assam capable of generating up to 4 million kilowatts ; in Baroda the Zankhari Project with a capacity of nearly 2,500 k.w. and the Sabarmati project with 6,000 k.w, capacity, the Kolar Nadi project of 16,500 k.w ; the Sind River project (Gwalior) with 16,000 k.w. capacity. Four schemes under construction in Hyderabad will supply about 139,000 k. w. and seven major schemes under investigation will be able to generate 500,000 k.w. The Jawai Hydro-electric Project (Jodhpur) will generate 1,510 k.w. at the canal head and 2,530 k.w. at the canal tail. The Jog Power Project (renamed Mahatma Gandhi Hydro-electric Works) in Mysore will have a capacity of 120,000 k.w.; the Bhadra Reservoir Scheme also in (Mysore) 12,680 k.w. The Patiala Hydro-electric Project will have a capacity of 16,000 k.w. The Chambal Hydro-electric Scheme, (Holkar State) will produce 11,28,000 k.w. continuous besides the power stations at the two pick-up weirs in Mewar and Kotah, with 68 000 k. w. and 56,000 k. w. respectively.

✓**22. A Poor People in a Rich Country.** This rapid survey of our resources is enough to show that Nature has been very generous to us-almost lavish in some respects. Her biggest gift, the Himalayas, are of incalculable economic benefit to us and have immense potentialities. The Indo Gangetic Plain is a perennial source of rich and varied crops. The infinite variety of climate can enable us to develop a rich economic life. Our mineral resources are fairly varied and sufficiently rich. Coal may be deficient, but water power resources are immense. We have a huge livestock and a vast human population. Geographically we are ideally situated. India seems to be thus marked out to be one of the most prosperous countries of the world.

But what is the actual position ? Poverty stalks the land, a poverty for which there is no parallel in the world. It is nothing short of an enigma or a paradox that we should be poor while our country is meant to be so rich. Obviously man has failed to take full advantage of the gifts of nature.

It is not proposed to discuss here in detail the problem of poverty. But we can make some general observations here in order to understand this mystery of poverty in the midst of plenty.

One thing that strikes us is the criminal waste of our resources. We have already seen how our coal resources are being wasted for the sake of getting maximum profits. Dr. R. K. Dass, in his book *Industrial Efficiency of India*, has made a detailed study of the wastage of our resources. According to his calculation, of the potential arable area, only about 30 per cent is being utilized for productive purposes and 70 per cent is lying waste. Taking the most liberal view, not more than 25 per cent of our forest resources are utilized and 75 per cent wasted. The wastage of fisheries has been put at two-thirds a year. Production of iron ore is only a little more than 11 per cent of what it should have been. Wastage of water resources amounts to 99 per cent. He concludes that the wastage of natural resources of India amounts to 75 per cent.

Then, there is also a wastage of human resources on account of ill-health, ignorance, unemployment or under-employment, useless motherhood and premature deaths. Out of the total manpower of 178 million persons (based on 1921 census) consisting of 92 million men and 86 million women, India loses annually the labour or energy resources equivalent to 45·9 millions through under-employment, 32·9 million through ill-health, 2·5 million through useless motherhood. In other words, the energy resources of 114 million persons, *i.e.*, 64 per cent of the total manpower is annually lost.

Wastage of capital arises from unproductive investment from immobilization of the capital resources and from imperfect utilization of the existing capital resources. This has been estimated at 66 per cent of our total capital resources.

The total wastage of the productive factors, *viz.*, land, labour and capital, has been put at 69 per cent[1] which is more than two-thirds. We are, in other words, utilizing less than one-third of our productive power. Is it any wonder that we are poor ?

Causes responsible for this wastage are numerous and complex. They lie in our social, economic and political structure. Racial characteristics, ignorance, inexperience and illiteracy all have something to do with this state of affairs.

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[1] R. K. Dass—*The Industrial Efficiency of India*, 1930.

The absence of economic independence has prevented so far the formulation of policies calculated to exploit our resources on the right lines and to the full extent. The policy of *laissez faire*, pursued by the State in India, has considerably affected the development of our resources.

The adverse influence of social conditions is only too apparent. The caste system is responsible for the vivisection of society and, by preventing free mobility of labour, fits many round pegs in square holes. The joint family system kills individual initiative and enterprise and breeds drones, which in its turn, reduce the chances of accumulation of capital. The stay-at-home habits engendered and encouraged by the system, are responsible for the maladjustment of supply of labour to the demand for it.

The dominance of religion makes the people fatalistic, superstitious and conservative and cuts across the organization of the economic interests. Religious sentiment also prohibits, in the majority of cases, the full economic utilization of our cattle resources. The most important cause has been our political subjection. Now that we are free, we shall be in a position to pursue a correct economic policy. But before any tangible results can be achieved, the character of our people will have to be rehabilitated from a state in which our 150-year-old slavery had landed us in.

Books Suggested for further Reading,

1. Sur, A. K.—Natural Resources of India (Padma Publications, Bombay).
2. George Kuryan—Hydro-Electric Resources of India.
3. Central Board of Irrigation's Leaflet No. 5—Hydro-electric Development in India.
4. Coggin Brown—Mineral Wealth of India.
5. Wadia, D. N.—Geology of India.
6. Report of the Royal Commission on Agriculture (Chapter on Forests).
7. Note by Sir Harbert Howard on "Post-War Forest Policy."
8. Dubey—Economic Geography of India.

CHAPTER II
POPULATION

1. Importance of the Study of Population. In spite of the preoccupations of World War II, India held a census in 1941. Financial considerations did not allow the operations to go their full course and many important tables were left incomplete; still the very undertaking of the task at such a time showed how very important it was. It is only recently that scientific study of demography has been undertaken and its importance recognized. The progress of a country is so much dependent on the people living in it that without a proper survey of the different aspects of its population, no future plans can be made. India is poor and her poverty has no parallel in the world. The *per capita* income is meagre. The standard of living is almost the lowest in the world. Curiously enough, this extreme poverty exists in the midst of great plenty. To remedy this situation a thorough and scientific study of Indian economic life is essential. But no active remedies can be suggested without a study of the people themselves, their numbers, age groups, occupations, diseases, ratio between the two sexes, etc. Herein lies the importance of the study of the population problems of the country.

2. Population Statistics. The total population of India, according to the 1941 Census, was 388,997,955[1]. The total area of India (excluding Burma) is 15,74,000 square miles. The table below gives statistics of the total population, its density, distribution according to political divisions, community proportions, sex ratio and urban and rural population. After division into the dominions of the Indian Union and Pakistan the population of the former, including Hyderabad and Kashmir, is 318 million, and of the latter 71 million. The area of the Indian Dominion is 12,09,000 square miles and of Pakistan 3,65,000 square miles.

3. Increase in Population. During the last 50 years the population of India has grown by 110 million as is clear from the table below.

TABLE I

POPULATION (IN MILLIONS)

	1891	1931	1941	Percent increase since 1891
Total persons	279	338	389	39
British Provinces	213	257	296	39
Indian States	66	81	93	40

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[1] The estimated population of the Indian Union in 1947 including Hyderabad was 23[illegible] millions

TABLE II

Percentage of variations from decade to decade was as follows :—

1891-1901	1901-1911	1911-1921	1921-1931	1931-1941
+1·5	+6·7	+0·9	10·6	+15

It will be seen that the growth of population from decade to decade has been slow and irregular. The factors governing this irregularity have been largely famines or epidemics. Their prevalence has been a restraining influence and their absence responsible for a substantial increase. Between 1891 and 1901, the twin factors of plague and famine checked a rapid growth in numbers while the decade 1901-1911 experienced a fair degree of agricultural prosperity and so registered a higher increase. The prospects of increase in the next decade (1911-1921) were marred by influenza which raged in an epidemic form. But for this calamity, which is estimated to have taken a toll of 14 million persons, population in India would have considerably increased. It seems the increase in numbers during the first seven years of this decade was neutralized by this disease during the closing years. Since 1921, however, the population has increased at a very rapid rate. Nature seems to have been less unkind. Perhaps the methods of conquering epidemics have been more or less perfected. Better irrigation facilities, too, have mitigated famine conditions. Part of the increase may be attributed to widening the area of census operations and an improvement in the methods. Even when allowance is made for these factors, the actual increase in population seems to be fairly alarming as it came to no less than 10·6 for every hundred. The rate of increase between 1931 and 1941, namely 15 per cent, is even more perturbing when we consider the already huge size of our population.

The increase has, however, not been uniform in all parts of India. The census report says : " Rates are noticeably higher in the north than in the south and have two extreme peaks in the extreme west and north-west and in the east. In fact, we have in the Punjab and Eastern Bengal two swarming areas. Both are comparatively young from the habitation point of view."[1]

Let us examine the causes that are responsible for the rapid growth of numbers during the last 20 years or so.

4. **Causes of the Great Increase.** The causes of the great increase in population may be summarized as follows :—

(a) The new irrigation scheme in the Punjab threw open considerable semi-desert areas to new colonization. The process started from almost zero, and is still going on at speed. The same was the case in the U. S. A. and Canada when the human tide first flowed in from Europe. The new colonies in the Bikaner State have attracted the Sikh farmer who has been responsible for a 40 per cent increase. Bahawalpur, too, has fared similarly. In Western Bengal with increased agricultral capacity the numbers have multiplied rapidly.

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[1] Census of India Report 1941, Vol. I, p. 23.

(*b*) The 1931 census figures were low as the census was taken during a period of political disturbances. The Civil Disobedience campaign was responsible for leaving many persons unregistered. The leakage was greatest in North India. All that slack was, however, caught up in 1941, hence the increase in density in North India.

(*c*) In 1941, the country as a whole was census-conscious and no one wanted to be missed in the count. In fact, it has been suspected that misjudged communal enthusiasms vitiated enumeration. Exaggerated figures were supplied in certain urban areas. To corret these wrong figures house lists were used for comparative corroboration and "sound enough results were obtained" according to the Census Commissioner, though there is much room for doubt.

(*d*) There is no doubt that the number of hospitals, doctors and nurses in India is small and, considering the vast area and the huge population of the country, the arrangements for medical aid are very meagre ; yet there is no doubt that during these years the facilities for such aid have greatly increased. As a result, while the birth-rate has remained steady at 33 per 1000, the death rate has gone down from 31 per 1000 in 1920 to 21 per 1000 in 1940. Besides, the mortality from epidemics like cholera, small-pox and plague has also decreased. Infant mortality figures also show a marked fall from 195 per 1000 in 1920 to 160 in 1940. Obviously these factors are all responsible for the heavy increase in population.

5. **A Study in Density of Population.** The number of persons per square mile varies from province to province and from State to State. We find such extreme variations as Baluchistan with 11 persons per square mile and Bengal with as many as 779. There are several factors responsible for these provincial and State variations.

Density is governed, in the first place, by climate. A healthy climate will attract more people and maintain larger numbers. If climate happens to be unfavourable, as in Assam, the density will be very low.

Secondly, apart from the effect of climate on health, the density of population in India, as in other countries, is mainly controlled by the distribution of rainfall. If rain is adequate, timely and evenly distributed, it will be highly conducive to the growth of cereal crops like rice. As rice is a prolific crop it can support a high density of population. But rainfall is not the only determining factor. In the Himalayan areas like Dehra Dun, Almora and Simla, the rainfall is ample and varies between 60 and 85 inches in the year yet the numbers per square mile are very few. Similarly in Assam where the rainfall is plentiful, the density is only 186. The same is true of Kashmir which has a density of only 49. It is seen that relief of land also plays an important part in density of population.

Regions with bold relief and heavy rainfall are not important producers of rice. Obviously no single factor can explain variations in density. It is only a happy combination of several factors which makes a higher density.

Thirdly, it is seen that irrigation facilities which stabilize agricultural conditions lead to denser population. The canal colonies in the Punjab are much more densely populated than some of the other districts.

Fourthly, economic development leads to dense population and the absence of it accounts for sparse population. Undoubtedly the number of people that can be maintained in the pastoral stage is very small. In the agricultural stage larger numbers can be supported. But in the industrial stage there is room for many more people. It is well known that all centres of trade and industry are usually densely populated. The higher density in Bengal is partly due to this factor while the lower density in the Punjab is due to the agricultural character of the province.

Fifthly, the nature of the soil also makes a difference. Regions of sandy soil show a lower density as compared with fertile areas. Rajputana, for instance, is very sparsely populated.

Sixthly, perhaps the most important single factor having a bearing on density is the configuration of the area. It is the shape of the surface of the earth which largely explains variations in density. The hills and mountainous tracts in the north-east or north-west of India are less densely populated, than the level plains of the Punjab, the U.P. and East Bengal. Level tracts afford greater facilities, economic activities and yield more fruit. India is mainly an agricultural country and density varies with agricultural conditions.

Seventhly, security of life and property is also responsible for the number of people living in an area. In the tribal areas and in certain tracts bordering on jungles, the density is comparatively low.

Finally, inter-provincial and inter-State variations in density are due to inertia. People cling to their native land even though the prospects of living may be brighter in other provinces where customs and language are different.

6. Density in India Compared with Foreign Countries : *If* we compare the density of population in India with some other countries, like the U.K., there seems to be no cause for alarm.

TABLE III

DENSITY PER SQUARE MILE IN SOME COUNTRIES

	Density	Year
U.K.	685	1931
Belgium	654	
Japan	352	
Germany	443	
British India (excluding States) ...	341	1941

These being industrial countries they can easily maintain heavy numbers. When, however, we compare India with countries having an agricultural economy, we feel concerned at the seriousness of the problem.

TABLE III (*Contd.*)

	Density.	Year
France	184	1931
U.S.A.	41	
New Zealand	12	
Egypt	34	
India	246	1941

With such a dense population the pressure on the soil has greatly inrceased. The agricultural resources of the country have not expanded in proportion. Between 1901 and 1941 the population increased by 32 per cent while the cultivated area increased by 13 per cent only[1] and the area under food crops during the same 40 years increased by a bare 5·3 per cent. During the war of 1939-1945 when India was cut off from Burma and Australia, she had to face such a dearth of food that severe famine conditions prevailed in deficit areas like Bengal.

7. Is There any Connection Between Density of Population and the Level of Prosperity in a Country? From Table III above it would appear that so far as density is concerned, we are in the company of rich and prosperous countries like the U.K., Belgium, Germany and Japan. Like them we show a very high density of population per square mile. From this one might conclude that there is a connection between high density and prosperity. It may be argued that a large number of intelligent, industrious and resourceful people will certainly develop the resources of a country to its best advantage and contribute to its material prosperity. The argument seems plausible. But it is fallacious. If a country is densely populated it does not necessarily follow that it must be prosperous. The same density does not indicate the same level of economic prosperity. The United States—admittedly the richest country in the world—has got a very low density of 41 persons per square mile, and though the New Zealanders are fairly rich, yet the density there is as low as 12. The U.K., with a high density and the U.S.A. with a low density enjoy nearly the same standard of prosperity. Thus there is no necessary connection between density and prosperity. Of all agricultural countries we have the highest density. But far from indicating a larger measure of prosperity, this density is actually a cause for alarm.

8. The Problem of Urbanization. In 1921, 10·2 per cent of our people lived in towns, in 1931, 11 per cent, while in 1941, 12.8 per cent were found in urban areas After the partition, on the basis of 1941 census figures it is seen that 13·6 per cent live in towns in the Indian Dominion (including Hyderabad and Kashmir) and 8·3 per cent in Pakistan. Thus about 87 per cent of the people in India still live in villages. The conditions in the West are quite the reverse. In Western countries the percentage of urban population varies from nearly 50 per cent in France to 80 per cent in England and Wales.

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[1] Gyan Chand—*India's Teeming Millions*, Chapter VIII.

The distribution of population between rural and urban areas is highly significant. Economic progress in every country has been marked by a corresponding increase in the urban population. The fact that a very small proportion of our people lives in urban areas is an index of our economic backwardness. It shows unmistakably that we are yet far behind other civilized countries in the development of trade, transport and industry. It brings home to us our almost exclusive dependence on agriculture and indicates an unbalanced economy.

The rural-urban distribution of population is significant from another point of view. It throws light on a people's national character. It is well known that personsliving in the villages are lethargic, conservative, superstitious and impervious to new ideas. Villages are backwaters of civilization and regions of intellectual stagnation. Village life acts as a drag on economic progress. On the contrary, the inhabitants of cities are alert, industrious and resourceful. It is from the cities that all progressive ideas radiate and civilization spreads. The fact that we have only a few cities shows that the springs of economic progress are exceedingly weak. Our huge rural population stands in the way of all enlightenment and progress. A country is what its people make it. For economic progress a toning up of national character is, therefore, very essential.

These considerations call for a more balanced distribution of our population between rural and urban areas. Not only is the proportion of our urban population insignificant, but progress in this direction has been very slow. From 10·2 per cent in 1921 we have advanced to a bare 12·8 per cent in 1941. It seems as if we have been almost stationary in this respect.

But although the percentage of increase has been slight, yet the absolute growth in urbanization is substantial. No doubt the number of big cities in India is small. There are seven with over 500,000 persons and only 57 with over 100,000. But between 1921 and 1941 the number of cities with 50,000 to 100,000 persons has gone up from 65 to 95, those with 10,000 to 20,000 has risen from 543 to 733 and the number of localities with 5,000 to 10,000 has increased from 987 to 3,017. Looked at from this point of view the speed of urbanization seems to be quite fast. Urban population increased from 37 million in 1931 to 50 million in 1941 while rural population increased from 301 million to 339 million during the same period. The following are the main causes of this development :—

(a) Industrialization is increasing with greater aggregation of numbers in the cities. To maintain healthy surroundings and check the insidious inroads of infection and disease, it is most essential that the local authorities should strictly regulate further building activities and frame comprehensive plans in time for the spreading towns. Uncontrolled urbanization would bring misery and suffering the effects of which would be impossible to eradicate.

(*b*) City life has great charm for middle class people. Electric light, running water, tram and bus, all play their part Educational facilities for boys and girls are another attraction. The library, the theatre and the cinema-house have an appeal of their own. In fact, the comforts and amenities of life in big cities are responsible for the increase in their numbers.

(*c*) The anti-moneylending legislation in the Punjab has played its part in denuding the countryside of many educated people who have flocked to town and city in search of better business.

The Bombay province has the largest percentage of people living in towns while Assam has the smallest, with 26 and 2·8 per cent, respectively.

The U. P. has the largest number of cities, with the Punjab running a close second. Bengal has only four big cities including Calcutta. It is not suited for big cities. The Bengalee is not fond of factory life. In areas where cheap hydro-electric power is available as in the West U. P. and East Punjab, greater dispersion of numbers is possible as well as desirable.

No doubt countries like the U.K., Germany and U S.A. have more people living in urban areas, and India is backward in this respect. But there is another side to the picture : India is a tropical country. Urbanization to the extent which is present in the West is not compatible with her climate. With a bare 12·8 per cent people living in the towns, the congestion in some of the big cities is terrible. Tuberculosis and venereal diseases are rampant, while epidemics take a heavier toll in the cities than in the open countryside.

Unfortunately, as Mr. Yeats, the Chief Census Commissioner, remarks, "This urbanization has all the drawbacks of lack of control and general squalor". Approaches to every big city are hideous. Thousands of homeless squatters are found camping in the outskirts. Brick-kilns are another hideous sight. Lahore "from the air is a spreading sore." Delhi with its "ribbon development" along roads going out of the city is even worse. Calcutta is "as an octopus with more than eight tentacles." Amritsar presents an ugly, repulsive look.

The slums in big cities like Bombay, Calcutta and Delhi which shelter large numbers of labourers are a clear proof of the lack of foresight on the part of the governing bodies. The "tenements" constructed in some of them are an effort to improve factory labourers' residential conditions, but they are neither sufficient nor comfortable. This "slummery" is destructive of both moral and physical health of the labourer.

In India, therefore, we do not advocate piling up of people in big cities, blindly following the West. We are anxious not to repeat the mistakes of the West. We should have a scientifically planned development of our cities so that all evils associated with congested areas are prevented from appearing in India. We should have medium-sized, open, airy and healthy towns. What is needed in India is the urbanization of the rural and ruralization of the urban centres.

It is interesting to note that in 1941—

94·2	millions of people lived in villages with less than	500 inhabitants.
86·96	,, ,, ,, ,,	500 to 1,000 inhabitants.
57·4	,, ,, ,, ,,	1,000 to 2,000 inhabitants.
63·4	,, ,, ,, ,,	2,000 to 5,000 inhabitants.

301·96 millions lived in rural areas.

9. Distribution According to Occupations. A study of the table below shows the occupational distribution of our people and gives an idea as to the relative importance of the various means by which our people earn their living.

General occupations		Percentage	Total Percentage
A. Production of raw materials	(i) Animal and vegetation	65·60	65·84
	(ii) Minerals	0 24	
B. Preparation and supply of material substances	(i) Industry	10·38	17·56
	(ii) Transport	1·65	
	(iii) Trade	5·83	
C. Public Administration and Liberal Arts	—	2·86	2·86
D. Miscellaneous	(i) Persons living on their own income	·16	13 74
	(ii) Domestic service	7 51	
	(iii) Insufficiently described	5 03	
	(iv) Unproductive	1·04	

We observe that almost 66 per cent of the people depend on agriculture while only 10% are engaged in industry and 6 per cent in trade.

Even a casual observer will be struck by the uneven distribution of our people over the various occupations. It simply reflects the lopsided nature of our economy. If the economic development of the country had taken place in a sufficiently diversified manner our human resources would have shown a more balanced allocation.

Less than 3 per cent of our people are engaged in administration and liberal arts. This shows a high degree of illiteracy and intellectual backwardness. A serious effort is needed to strengthen the drive for increasing literacy in the country. The civil administration, the police and the army absorb only a little over 1 per cent of our population Even if this proportion is doubled it will not solve the problem of middle class unemployment. In the absence of alternative sources of employment, however, it is understandable why people fight so hard for the limited number of Government jobs.

Although 10·38 per cent are shown as being engaged in industry, only 1·5 per cent are accounted for by organized industry. When we know that less than one-fifth of our people are engaged in trade, transport and industry, we find a clue to Indian poverty. The majority are doing unremunerative work, hence poverty is inescapable. *Industrialize or perish*, should be our slogan. Rehabilitation of agriculture alone cannot pull us out of the mire of poverty. In fact the most distressing fact about our vocational distribution is that an overwhelming number of people are dependent on agriculture. Even Bengal, Bihar and Orissa, in spite of having developed certain industries, are predominantly agricultural and so are the Punjab and the U.P. although a very large proportion of their population is returned as industrial labour. India shows the highest percentage of people in the world as depending on agriculture.

Agriculture is admittedly the least remunerative of occupations. Experience shows that economic progress has always been marked by a diminution in the numbers engaged in agriculture and by an increase in those engaged in trade, transport and industry. In England, for instance, less than 10 per cent of the people depend on agriculture. To make matters still worse, Indian agriculture is a gamble in rain and is, therefore, always uncertain of success. It is subject to the law of diminishing returns. It is a seasonal occupation and subjects our people to enforced idleness for several months in the year. Our exclusive dependence on agriculture is an index of unbalanced economy and is one of the most important causes of poverty. This situation needs immediate rectification. Even as long ago as 1880 the Famine Commission issued a warning about the dangers in this situation.

From decade to decade the vocational distribution has remained practically the same. There has been no fundamental change in this respect during the last 25 years or so. A slight increase is observable in the number of persons engaged in transport which is due to the development of motor traffic and also in those engaged in liberal professions which may be attributed to advance in literacy. It is time that we bestirred ourselves and made vigorous efforts to bring about a more even distribution of the people over the various occupations and overcome this economic stagnation.

10. Distribution According to Communities. Up to 1931 religious returns were used as communal ones. In 1941 a departure was made from the old method of enquiry. Caste-sorting on an all-India scale was dropped. The Census Report for 1941 says: "The religious returns of previous censuses so far as they relate to the tribes are worthless" No one can explain the meaning of the word religion to an ordinary member of a tribe The enumerator in the past put down a person as Hindu if he was not a Christian or a Muslim. Even an anthropologist could not determine how far a tribesman was assimilated in Hinduism. Hence in 1941 a more scientific basis for community enumeration was adopted. The comparative communa

figures for different censuses are given below :—

TABLE IV

PERCENTAGE OF DIFFERENT COMMUNITIES IN INDIA

Year	Hindus	Muslims	Christians	Jains	Sikhs	Tribes	Others
1931	68·2	22·1	1·8	·4	1·2	2·4	3·9
1941	65·9	3·8	1·6	·4	1·5	6·6	0·2

Thus one could say that out of every 100 persons in India, 66 are Hindus, 24 Muslims, 7 tribesmen, and out of the rest half Sikhs and half Christians. The Hindus are in the majority in the South and centre of India, while the Muslims are predominant in the N.-W.F.P., Kashmir, Baluchistan, Sind, the Punjab and Bengal. The Sikhs are confined to the Punjab with just a scattering in the other provinces. The tribesmen are mostly found in Assam, Bihar and Orissa. The Christian element is stronger in Madras than elsewhere.

The partition of India into the Indian Dominion and Pakistan has greatly reduced the importance of communal distribution of population. Pakistan is a Muslim State while the Indian Dominion is a secular one and gives no special preference to any community. It is a matter for congratulation that the ideals of separatism as propagated by the Muslim League have died out in India. Hence the old interest in communal distribution of population has largely died out.

11. Sex Ratio. It is a well-known fact that in every country more males are born than females, the ratio being 108 to 100. In foreign countries more males die off, thus leaving an excess of female children to grow up into women. In India, too, the number of males born is greater than that of females. Organically the female sex is the stronger. Some time ago the League of Nations published very informative data on the expectation of life in 30 important countries [1] It is seen that at all ages, the expectation of life for women is greater than for men *in all countries except India* up to the age of 40, where mortality among women during the child-bearing age is particularly high. In India, as in other countries, up to the age of 12 the mortality of female children is less than that of male children. It is after the age of 12 and up to the age of 45, the child-bearing age, that huge numbers of women are cut off, thus reducing the ratio of females to males in India and creating a problem exactly the reverse of that in the West.[2] Early marriage, purdah and the lack of trained midwives are equally conducive to the greater mortality of women. Pernicious anaemia, consumption and uterine diseases, too, take their heavy toll. Extreme poverty does not permit poor women to have sufficient rest before and after child-birth, thus hastening them into the grave. Conditions of life are definitely harder for women than men in India.

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[1] League of Nations' Monthly Bulletin for December 1944.

[2] P.K. Wattal—*Population Problem of India*.

The progressive decline in the proportion of females to males from decade to decade which the following table shows is a cause for great alarm :—

TABLE V

NUMBER OF FEMALES IN INDIA TO EVERY 1,000 MALES

	Number of Females
1911	9 4
1921	946
1931	940
1941	935

Woman is held cheap in India and her health and diet are deliberately neglected even in upper class families. This deliberate neglect may be styled "indirect infanticide".

Among the major provinces, the Punjab has the least number of females—only 847 per 1,000. Madras and Orissa are the only two provinces with more females than males, but the ratio of females in these also has fallen in 1941 as compared with 1931.

FEMALES PER 1,000 MALES

	1931	*1941*
Madras	1,021	1,009
Orissa	1,087	1,069

Maternal mortality is the most important cause of fewer females in India Three specific inquiries were conducted by medical men in Madras, Calcutta and Bombay recently which yielded figures of 16·6, 24·4 and 8·9 deaths per 1,000 child-births The range is rather too wide. Sir John Megaw's village inquiry of 1933 gave a maternal mortality figure of 24·5. The Public Health Commissioner for India makes a tentative suggestion of 20 deaths per 1,000 child-births for India. The latest figure for England and Wales is 2·9.[1] The great difference between the two figures shows the gravity of conditions in India and the great leeway to be made up.

12. Expectation of Life. A child born in India expects to live a much shorter life than the one in other countries Elsewhere the average span of life has greatly improved, while in India the improvement has been next to nothing. The main reason is that the standard of living has not risen. The low level of nutrition is responsible for the low expectation of life. Not only is the food insufficient in quantity, it is poor in quality, lacking as it does in salts and vitamins.

Experts have produced comparative figures of life-expectation in several countries. They are :

TABLE VI

EXPECTATION OF LIFE

New Zealand ...	67 (1934-38)	U.S.A ...	65 (1940-41)
Britain ...	62 (1937)	U.S.S.R.(Europe)	44 (1926-27)
Japan ...	48 (1935-36)	British India ...	27 (1931)

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[1] Mr. Yeats—Census Report, 1941, Vol. I, p. 24.

A steady increase in the longevity of life in England from 44·13 in 1891 to 55·62 in 1931 and 62 in 1937 reflects a rise in the standard of living and an improvement in medical facilities. Figures collected by the League of Nations show that in all the important countries of the world people expect to live longer than in India.[1] That the expectation of life is so short in India is largely due to infant and maternal mortality. With a reduction in the havoc caused by these, the expected span of life should become greater, but it can never reach western standards until our standard of living rises.

The present short expectation of life in India can only mean that the labour and expense of bringing up human life do not yield a proportionate return. Persons are snatched away in the prime of life when they would start making contribution to the welfare of the community. Being deprived of such rich lives India is bound to be poor.

Another peculiarity of Indian conditions is that the expectation of life in the case of females is even lower than for males, being 26·56 against 26·91 while in the U.S.A. it is 68·61 for females as compared with 63·65 for males. Similarly in other foreign countries the expectation of life for females is invariably greater than for males. There has been a little improvement in the longevity of life in India from 23·63 years in 1881 to 27 years in 1931 not as the result of improved nutrition but of better public health service.

13. Age Groups. The age composition of a country's population can be represented in the form of a pyramid, the base representing the number of children born. All the children born do not survive. As we go up the pyramid, the numbers are cut down so that the pyramid becomes narrower and narrower towards the top. The dimensions and the actual shape of the pyramid reflect the survival rate in the country. India has got the highest birth rate and the highest death-rate in the world. The Indian pyramid, therefore, has got a very broad base and a sharp tapering top.

A study of the age distribution in India reveals that India has a very large number of children but few old men and women. Very few people survive after 50. Thus all their experience is lost to the country. In Europe a man goes on working till the age of 60 or 65, while in India he retires at 55 from Government service. The ordinary course of productive life in India is much shorter, 15 to 50, while in the West, it is much larger, 15 to 65. Thus the effective population in India is much smaller.

14. Birth and Death Rates. India leads the world both in births and deaths as is shown by Table VII below. The large number of births is due to the universality of marriage and the high fertility per marriage. The people are illiterate, ignorant and superstitious. They are incapable of exercising any conscious check on the growth of their families. They hanker for children in any number, provided they are males. Their standard of living is so low that the increase in the size of the family causes little financial worry. But if more come, more die too. The high degree of infant mortality, 160 per 1000 births in 1940, is due to early marriages, ignorant motherhood, defective midwifery arrangements, insufficiency of milk supply and the practice of drugging the child. Female infanticide was also prevalent at one time. Appalling poverty and widespread and ever recurring epidemics mercilessly cut down numbers. A great deal of the labour of motherhood goes in vain.

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[1] League of Nations' Monthly Bulletin for December 1941.

While the birth-rate in India has been practically steady at 33, the death rate per 1,000 has fallen from 31 in 1920 to 22 in 1940, Prof. Gyan Chand, however, believes that due to the lack of reliable statistics in the villages these figures are too low and he puts them at 48 and 33, respectively.[1] Compared with countries in the West these figures are very high and speak of the terrible waste of human life and energy in this country as is shown by the table below.

TABLE VII

BIRTH AND DEATH RATES IN 1940.

Country			Birth rate	Death rate
Holland	...	...	23	9
U. K.	...	...	17	12
Germany	...	...	17	11
Italy	..	...	27	14
France	...	...	18	16
India	...	...	33	22

With the progressive fall in infant and maternal mortality, a downward trend of the cholera and plague deaths, a falling death-rate and a steady birth-rate—as shown by the table, below, there was bound to be a greater increase in population in the last decade. This fall in the death-rate has created in addition a potential for a further increase in population.

TABLE VIII

BIRTH AND DEATH RATES.

Period	Birth Rate per 1,000	Death-Rate per 1,000	Net Birth-Rate per 1,000
1901-'10	38	34	4
1911-20	37	34	3
1921-30	35	26	9
1931-40	34	23	11
1941	32	22	10
1942	29	24	5
1943	26	23	3

A study of the birth and death rate tables for England and Wales tells us that there was a time-lag of about 20 years between the downward trend of death-rate and a similar movement in birth-rate in that country. Death-rates started falling in India in the decade 1921-31. It would not, therefore, be unreasonable to expect a similar fall in birth-rate too, which is apparent in 1941 to continue. Prof. Karve, in his hand-book on Indian population, points out that the real fall in net birth rate commenced in England half a century after the gross birth-rate started falling. He, therefore, fears that India may have ahead of it an immediate period of even higher numbers, if famine and epidemics do not interfere. According to Mr. S. Swaroop, Statistical Assistant in the office of the Director-General of Indian Medical Services, the fall in infant mortality rate from 195 in 1920 to 160 in 1940 will result in a substantial addition of 6·5 and 11 million souls in 1951 and 1961, respectively, even if the death rate falls no further.

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[1] Gyan Chand—*India's Teeming Millions.*

15. Net Reproduction Rate Unfortunately too much attention is usually paid to crude rates of birth, death and increase and to grand totals in books on Indian population. Since R R Kuczynski's method of calculating future population growths has been introduced we are in a position to have a better idea of the effect of births and deaths on future numbers. His method is the calculation of the Net Reproduction Rate and is a very simple concept and at the same time reliable. The rate is calculated on the basis of fertility and mortality which are assumed to remain constant. We find out the probable number of female children born to 1,000 women during their reproductive period, which is taken to be 15 to 45 in India, and to correct the result by means of mortality tables. Obviously a net rate of 1,000 female children for 1,000 mothers will just maintain the population at its present level. A difference either way will show an increase or decrease in future numbers.

Our difficulty is that we have not got the data to estimate the net reproduction rate for India. An attempt has been made to work out this rate for India in the report on population by the sub-committee appointed by the National Planning Committee. "The total number of girls born to 1,000 women in India passing through child-bearing age would be 4,542, but since according to the life-table out of 1,000 live-born females only 524 females are found to be living at the age of say 20 and thereon, total fertility is reduced by mortality from 4,542 to 1,762. A thousand mothers would be replaced by 1,762 new-born girls. Of these 308 would be widows and unmarried females Thus 1,000 mothers would give birth to 1·454 future mothers and the net reproduction rate for India will be 1454,"[1] compared with Japan's 1·495, and Russia's 1·70.

Prof. Brij Narain also calculates the gross and net reproduction rates from the Census Report of 1941. He takes the reproductive age to be between 15 and 50 and estimates a gross reproduction rate of 2·65 and a net reproduction rate of 1·19 for India.

We may, then, conclude that ours is no doubt a growing population, but certainly not at the terrible rate prophesied by some people. Even the net reproduction rate of 1·454 compares with

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[1] N. P. C. Series—*Population*, pp. 29-31.

some foreign countries as below :—

Russia	1928	1 70
Japan	1925	1 495
India	1931	1·454
Italy	1921-22	1·40
England and Wales	1921	1·087
France	1933	0·82

16. Migration. (*a*) ***Emigration to outside India.*** In the history of Europe emigration has played a major part. It has been estimated by a German economist that in the 400 years since America was discovered, no less than 105 million people have emigrated from Europe and that in the 19th century alone 31 million emigrated to America and elsewhere. Between 1850 and 1900 the U.K. lost no less than 15 million people in this way.[1]

Emigration has played an insignificant part in the movements of Indian population. She has ordinarily no more than about three million people resident in other parts of the British Empire and only about 100,000 in foreign countries like Dutch East Indies, Dutch Guiana, Madagascar, the U S. A. etc. Ceylon, Burma and Malaya have as many as two millions out of the three in the British Empire[2]. Essentially the Indian is a home-loving animal and is chary of leaving the place of his birth.

Most of the emigrants from India are manual workers who are either indentured or have gone out under a special system of recruitment. The rest are either business men or artisans who have voluntarily gone out to improve their lot in life. In spite of the great increase in population in the last decade, emigration has not served to relieve pressure. One reason why the Indians do not go out in large numbers is that they are not tolerated abroad, whether in the Empire or outside. The recent Pegging Legislation in South Africa is a case in point. The standard of living in the Dominions is higher than that of the Indian immigrants, hence the restrictions on their entry and the segregation of those already settled. This is most unfair and since she won freedom India is fighting hard in the U.N.O. to have this discrimination removed. There are many parts of the British Empire in the tropics like British Guiana and Africa where the density of population is low and which are peculiarly suited to Indians. Schemes of emigration from India to such places could be taken in hand with success if the colour bar were given up.

(*b*) ***Migration within India*** is small on the whole, but plays an important part in the economy of certain areas.

The tea gardens in Assam import all their labour from Bihar, Madras and the C.P. while the fertile lands in the Brahmaputra valley have attracted settlers from Mymensingh and East Bengal.[3] The tea estate labour in Assam is now secured under fixed conditions

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[1] *The Economic Problem of India*—Ramaswamy, p. 45.

[2] Cf *The Indian Year Book*; 1941-42, p. 933.

[3] Census Report, 1941, Vol. I.

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and is well looked after. The Bengali is as a rule averse to work in the mines. Hence most of the industrial work in Bengal is done by immigrants from Bihar, Orissa and the East U. P. Bombay, too, gets most of its labour from outside. The Punjab, the U.P., and the N.-W.F.P. on one side, and Hyderabad and Madras on the other are major contributors. The stalwart Punjabi is ubiquitous and is found almost everywhere working as a technician, a taxi driver or a policeman.

Recently, as a result of the partition of India, migration of population on a vast scale has taken place, Hindus and Sikhs coming to India and Muslims going to Pakistan. But this was an extraordinary happening. Ordinarily labourers move from the village to the city to work in factories or as domestic servants, but they have always the idea to go back.

17. **Public Health.** The Indian is uneducated. He knows little and cares less about the laws of sanitation and health. The climate of the country is favourable to the spread of diseases not known in temperate areas. It has been rightly said that India is one of the greatest cesspools of infection for plague, cholera, smallpox, malaria and dysentery. Intestinal worms also play their insidious part in undermining the health of the villager. Tuberculosis works untold havoc. The Royal Commission on Agriculture deplored: "Malaria slays its thousands and lowers the economic efficiency of hundreds of thousands" Malaria is the largest public health problem in India. Deaths from this disease number about a million, and the number of cases is about 100 million per year.

India has very few areas which are free of malaria. Unless the Indian works from below and declares total war on the mosquito malaria will take its yearly toll Mere government efforts will not be effective. One of the most important aspects of the Rural Uplift Campaign should be the destruction of the mosquito Fever is not something to which the Indian is born and which must be borne. Its root cause, the mosquito, can and must be decimated.

18. **Marriage in India—its Universality.** Marriage is universal in India. Religion advocates it. Social customs require it. A Hindu cannot aspire to salvation until he has a male issue to perform his funeral rites. No considerations of future poverty restrict marriage—a wife is a cook, a drudge and a mate The poor man has no intellectual interests, hence over indulgence in sex. A child is not a burden but an asset as he starts playing his way at an early age. The 1931 census figures indicate that 47 per cent males and 49 per cent females were married. These figures are the highest for any country in the world. Nobody, to whichever community he belongs, abstains from marriage if he can possibly help it.

Child marriage Another important feature of Indian society is early marriage The Sarda Act fixes the age of marriage for girls at 14 but it is in advance of public opinion. Child marriage works havoc with health and physique and as a Census Superintendent feelingly remarked: "Thousands of child-wives march from the nuptial bed to the funeral pyre. There is now a tendency towards postponement of marriage in better class families, but more for males than females.

There is a very large number of widows in India—more than 9 million—between the ages of 15 and 40. Hindus have 124 widows, aged 15 to 40 per 1,000; while Muslims have only 91. Amongst Hindus, widow remarriage is prohibited by religion. It serves as a check on the growth of population.

19. The Population Problem in the West. Before the war of 1939-45 and more so during it, the nations in the West have been pining for greater numbers. English philosophers[1] have been visualizing with dread a time when a child will be a rare sight. The French have been offering concessions in education, taxation and railway fares for larger families, but with little success. "Too few babies" was diagnosed by M. Petain as one of the causes of the debacle in France in 1940. Hitler adopted well-known totalitarian methods to increase a falling birth rate and skilfully mixed persuasion and compulsion. Mussolini exhorted the Italians to multiply to reach the 60 million mark. Abortion and birth-control propaganda were penalized and a deliberate pro-natalist policy followed. Mother and child days were celebrated and prizes awarded for bigger families. It was emphasized that with a falling population one did not create an empire but became a colony.

All these European Powers were anxious to have more numbers in spite of the fact that they had increased considerably between 1870 and 1930, certainly much more than India, as is shown by the following table :—

TABLE XII

Country	Population in millions 1870	Population in millions 1930	Increase per cent. over 1870
Germany ...	41	64	56
Italy ...	27	41	52
France ...	37	40	8
England and Wales	23	40	74
Europe ...	308	506	64
India ...	265	353	33

In spite of the decimation caused by World War I, the population of all Western countries, except France, increased between 1911 and 1921 at a much higher rate than that of India.

Malthus has been proved a false prophet—at least so far as Europe is concerned. Its population has increased, not in a geometrical progression, but steadily and a further increase is anxiously sought after. At the same time the processes of material progress have been accelerated. There is more wealth and prosperity.

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[1] G F McCleary in the *Menace of British Depopulation*, W.B. Reddaway in *Economics of a Declining Population* and D. V. Glass in *Population, Policies and Movements in Europe*.

Public health measures have put natural positive checks on population at arm's length. Famines and epidemics are memories of the past. The standards of life have shot up and man has refused to breed at previous rates and in numbers desired by the rulers.

As a consequence there are fears that industrially advanced countries will not be able to keep up their numbers. The net reproduction rate in France, the U.K., Germany, Sweden and Austria is *less than one*.

Dr. Kuckzyuski's researches also show a declining fertility in all highly industrialized countries in Europe. Dr. Charles proves the existence of similar conditions in Australia. He concludes, "Whatever changes in mortality ensue, nothing can arrest a continuous decline of the population in Britain and elsewhere." This decline in Britain is not due to adversity, nor is there any evidence of an increase in physical sterility. According to Prof. Harrod there are two main causes for this decline in Britain: —

(1) The high level of prosperity and well-being that man ha achieved for himself. Parents often prefer to go in for a Bab Austin rather than a human baby, as the latter adds to thei economic liability, the former to their pleasure and comfort.

(2) The use of *efficient* contraceptives. Mothers in old time had a raw deal. Those who went through the trials and tribulation of having large families were worse off in health and wealth tha their friends who avoided this service for society. Hence th invention of efficient contraceptives induced them to throw in thei lot with the better-dressed and better-fed.[1]

20. The Population Problem in India. The question is ofte asked whether India is over populated. In order to be able t answer this question we must know what over-population precisel means. The idea of over-population is closely connected with th concept of optimum population. For every country there is a ideal number which it can maintain in reasonable health an efficiency. The optimum number is not an absolute number. I is relative to the economic resources and the extent of thei development. If the resources have not been fully develope even a small population may be excessive. If, on the other hand resources are more fully developed a larger population may b adequately supported.

There is a certain number which can turn the resources of th country to her best advantage. If this number were less than th optimum, the *per capita* income would be less than it can be, f the number would be insufficient to develop the resources. It is the a case of under-population. If, on the other hand, there are to many people, the resources are thinly spread over and then, too, th

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1. R.F. Harrod, *Britain's Future Population*. Oxford Pamphlets on Ho Affair.

per capita income would be less than it can be. It would be then a case of over-population. It would mean that the number of people has exceeded the optimum.

A distinction is sometimes made between a state of over-population and the tendency to over-population. In the case of a state of over population, the country is already over-populated and its *per capita* income is less than it could be. In this case, therefore, any diminution in numbers would lead to increase in *per capita* income. But if the population of a country increases while the *per capita* income is decreasing, then there is a tendency to over-population. In some countries, like India, there may be both a tendency to and a state of over-population Prof. Carr-Sunders has defined over-population as meaning that there are too many people in relation to the total production.

21. Is India Over-populated? Let us now see whether India is over-populated. Different views have been expressed on this matter. There are some people who think that India is not over-populated. It is argued *in the first place* that density of population in India is much lower than in most of the European countries and that the natural resources of the country are immense. This inference is certainly fallacious. Our potential resources are, no doubt, vast but they have not been yet thoroughly and adequately exploited. When we want to consider whether a country is over-populated we must consider not the potential, but the actual resources. Considering our existing resources and the extent to which they have been developed, there is not the least doubt that even the present lower density is burdensome. Countries with higher density are materially more advanced and can well maintain larger numbers than we can with our meagrely developed resources. There are reasons to believe that the *per capita* income in India would have been higher if our numbers were smaller. Large numbers of people in India earn nothing.

Secondly, it is contended that every successive estimate of our national income has shown an increase in the *per capita* income. How in the face of it, it is asked, can there be any over-population in India? We can easily dismiss this argument by pointing out that increase in *per capita* income would have been much more substantial, if population had not increased so rapidly. National income has been increasing but population has also been increasing, so that the share of each individual is smaller than it would have been. Besides the improvement is so very small as to be insignificant.

Thirdly, it is pointed out that India has suffered from scarcity of labour and that it looks paradoxical that there should be a scarcity of labour in an over-populated country. But it may be pointed out in reply that there is no scarcity of unskilled manual labour but only of trained skilled labour. In view of the deplorable lack of facilities for training industrial labour, its scarcity is not surprising even though the country is over-populated. Further, the phenomenon of scarcity of labour is now a thing of the past. Since the unprecedented economic depression of the 'thirties, few industries in India have really experienced any serious shortage of labour. What India lacks now is highly trained personnel.

There is thus not much in the arguments of those who say that India is not over-populated.

In case we wish to find a positive proof of over-population in India, we may appeal to Malthus. Scientists like Darwin have emphasized the universality of the law of quick multiplication as applied to living organisms. According to Darwin, "Every organic being naturally increases at so high a rate that, if not destroyed, the earth would soon be covered by the progeny of a single pair." Human beings are no exception to this all perversive law of procreation It has been estimated that a single couple is capable of producing, at the present rate of increase, in 1,750 years, a number of persons equal to the existing world population; such is the prolificness of nature. On the ground of such observations Malthus came to the conclusion that unless population is checked, it would sooner or later outrun the means of subsistence We have seen that Malthus has not proved a true prophet so far as Western countries are concerned. But his doctrine certainly applies to India.

If we can show that population in India has gone on increasing unchecked, then we shall have a strong presumption in favour of the state of over-population in India. For this purpose we shall have to see to what extent the various checks contemplated by Malthus have been in operation. These checks are :—

(*a*) *Lower marriage rate*. In European countries there is a large number of bachelors and spinsters. But in India, as we have seen above, marriage is universal. It is a sort of religious *farman* and social obloquy attaches to an unmarried person. Everybody in India, therefore, marries either by choice or under social or religious injunction

(*b*) *Lower fertility per marriage*. Universality of marriage need not have led to increased population if only fewer children were born per marriage. Lower fertility could be achieved by marrying late, through deliberate self-restraint or by the use of contraceptives. But marriages take place very early in India except in a few highly educated families. Also, far from consciously keeping down numbers, the majority of the population are keen on having children and actively believe in the doctrine, "He who gives the mouth will also supply the food." Deliberate checks to the growth of population are thus conspicuous by their absence.

(*c*) *Infanticide*. At one time the practice of female infanticide prevailed in India and it might have exercised some check on population. But no one in his senses would advocate such an ignoble and criminal method of checking population. All social reformers are happy that this black mark from India's face has been effaced.

Thus we see that what Malthus called preventive checks do not operate to check population in India. On the other hand, positive checks like famine and epidemics have full play and are very frequent and regular visitors. That is exactly what Malthus said. He warned that if population was not checked by the exercise of preventive checks, a country would become over-populated relative to food supply and then positive checks would operate to cut down the numbers. The existence of a high birth-rate with a lower death rate shows that the population is rapidly on the increase. Dr. Hutton, the Census Commissioner, remarked in 1931: "Attention has already been drawn to the *grave increase* in the population of this country The actual figure of the increase alone is a little under 34 million, a figure approaching equality with that of the total population of France or Italy." In a similar vein Mr. Yeats talks of the 50 million increase in the 1931-41 decennium, an increase greater than the total population of any country in Europe except Germany and Russia. Although the percentage increase of 39 between 1891 and 1941 is not very high and is less than that of England, Germany, Russia, etc., yet the total increase gives a shock. Was not Malthus right after all ? The high maternal and infantile mortality rates, the short span of expected life, and the low *per capita* income are sufficient indications of the fact that the country is overflowing with people. Students of population problems like Dr Radha Kamal Mukerjee,[1] Mr. P. K. Wattal[2] and Prof. Gyan Chand are convinced that the Indian population is running ahead of food supply. The food crisis in Bengal and continuous imports of food grains from abroad clearly prove that India cannot maintain the present numbers. No deliberate checks are employed to restrict numbers Marriage is universal. There is chronic unemployment in the country. All these factors positively point to a state of over-population relative to her production. "Fertility and mortality in India respond to conditions of agriculture as well as public health in a manner unknown in the West. In Western countries the age composition is relatively stable and dominated by the net reproduction rate, mortality being a negligible factor. In India, on the other hand, reproduction is to all intents and purposes unchecked by human[3] volition and the condition of harvest leads to sharp variations in the minor age-groups."[4] Hence there are few economists who seriously question the contention that India is over-populated.

22. Remedies Suggested The fact of over-population can be readily conceded. Let us now examine the various remedies suggested.

(*a*) **Voluntary Checks.** There is no room for doubt that the positive checks pictured by Malthus do work in India in the absence of conscious or preventive checks. As a result of

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1. *Food Planning for 400 Millions.*
2. Presidential address at the All-India Population Congress, 1938.
3. *India's Teeming Millions.*
4. N.P.C. Series. Population, p. 33.

unrestrained procreation, millions obey the inexorable law of nature and go "to fatten the earth which could not fatten them." This weeding out is a very painful process and brings infinite suffering in its train. Poverty encourages breeding and larger numbers result in greater poverty. Thus a vicious circle is set up which has to be broken through at all costs to relieve this misery.

(*i*) *Moral restraint.* Further increase in numbers must be restrained. With enhanced material progress, a planned utilization of natural resources and greater industrialization it would be possible for India to support a bigger population a hundred years hence. Today, however, when we have just started developing industry and agriculture, it is essential to cut our coat according to our cloth and to exercise a deliberate control on further increase in numbers.

To depend on married couples for deliberate restraint and voluntary separation for keeping down numbers is to belie human nature and is like relying on a broken stick. Other methods will have to be found.

(*ii*) *Artificial Birth-control.* The use of contraceptives to control births is believed by some medical men to be harmful to nerves. It is also asserted that a dissemination of knowledge of contraceptives will encourage promiscuity and immorality. They are further supposed to be beyond the pocket of the poor man In spite of these objections, however, it is essential to open and maintain clinics at public expense in order to initiate young married couples into the use of and need for birth-control methods. There may be an abuse of this knowledge in early stages, but the gain from putting a stop to the " torrents of babies" will be far greater than the harm done. There is no other equally efficacious method to keep families within reasonable proportions. Sir Ardeshir Dalal, ex-Member for Planning and Development, Government of India, said in a speech in Canada on July 18, 1945, that a policy of birth-control to raise India's economic production and national income was urgently needed. Mrs Margaret Sanger, the well-known American exponent of birth-control, commenting on India's need for birth control said: "An attempt to raise the standard of living and the *per capita* income of the people of India without corresponding efforts to control their fertility would be a complete failure." Prof. Gyan Chand also suggests the reduction of birth-rate in India by means of voluntary clinics and propaganda agencies until the country is able to produce more goods.

The only cogent objection to the use of contraceptives is that the intelligent and strong may use them, leaving the ignorant and weak to propagate the species, thus bringing about a deterioration in the quality of the race. Such dangers are remote in India, where the instinct for offspring is so powerful. In such circumstances any amount of planning will only lead to a higher birth-rate unless active steps are adopted to control numbers. The war is teaching the sson : "Plan or Perish." No activity of life, social or economic, an be safely neglected.

The science of eugenics is in too early a stage and its applica- on too unpopular yet, even in advanced countries, to be considered r India. The individual will not give up his liberty unless the tate uses coercion. There is no harm, however, in contemplating he compulsory castration of those suffering from incurable venereal iseases and of those who are of unsound mind.

With the partition of India into two separate dominions the hances of consciously checking numbers are brighter in the Indian ominion. India is a secular State ; the struggle for political power n the basis of community and religion has ended. Sectional con- iderations shall no more stand in the way of population planning s a whole. Besides, the impossibility of capturing political power hrough an increase in numbers is bound to bring home to the masses he internal relationship between low standards of living and unres- ricted multiplication.

(*iii*) *Postponement of Marriage.* Early marriages mean more irths and deaths. Marriage at a later date would mean fewer irths, no doubt, but also fewer deaths. The postponement of marriage, therefore, would not serve the purpose of checking the increase in numbers, but it would certainly avoid the present loss in life and energy. Hence it is desirable for itself.

(*b*) **Migration.** The pros and cons of emigration as a method f relief for pressure of population have been considered and it has been concluded that so far India is not in a position to benefit from it. There is not much to hope for from internal migration too. There is not much " culturable waste " land left in India after the partition. This " waste land ", too, is in the process of being utilized through schemes like the Damodar Valley and Bhakra Dam. Plans for a better distribution of population to correct its present lopsidedness should be undertaken for whatever little they are worth.

Other Helping Measures : I Public Health Measures. A smaller but more healthy population is to be preferred to a bigger one which is sickly and shortlived. In the beginning, public health measures meant to reduce infant and maternal mortality and to checkmate the devastating effects of malaria, dysentery, consumption and worms will not only bring about an increase in numbers but also add a potential for further increase as they have actually done. Such measures will, however, improve the quality of the population and add to its longevity. In the long run they will set at work automatic brakes to put a stop to the rapid increase in numbers.

The problem should be tackled in all its various aspects as discussed below.

(*i*) *More Hospitals and Dispensaries.* India is very deficient in trained doctors and well-equipped hospitals. At present there is only one hospital for about 40,000 persons in the urban areas an conditions are much worse in the villages. The accommodatio for indoor patients is very inadequate. Patients have to wait fc weeks and months before they can find room in good hospitals. planned increase of hospitals is urgently needed.

Travelling rural dispensaries could do immense good in rur areas. Training in Unani, Vedic and Homoeopathic systems coul be put on a scientific basis and utilized to relieve suffering humanit

(ii) *Research.* There is urgent need for research in tropic diseases. Institutions of the type of the Calcutta School of Trop cal Hygiene could be multiplied with advantage. The results such research should be made available in the form of drugs an medicines through their manufacture on a mass scale, thus eschev ing our dependence on foreign imports as far as possible.

(iii) *Sanitation.* The inculcation of sanitary and hygien habits both in urban and rural areas is most important. The effor of public health authorities will not bear much fruit till the peop have the will to improve. Intensive propaganda through exhib tions, demonstrations, lectures, magic lantern slides and the scree will have far-reaching effects in creating the will to improve. Tem ting prizes for sanitation and cleanliness in villages will stimula efforts. The Bengal scheme of Circle Sanitary Inspectors may considered for all-India adoption with necessary modifications suit circumstances. Trained *dais* and midwives may be provide in villages with subsidies from local and provincial government Rural Health Leagues with village schoolmasters as nuclei may started. In fact, every weapon available to hand should be put service to ensure an intensive propaganda to reach the remote village.

(iv) *Nutrition.*—Dr. W. R. Ackroyd Director of the Nutr tional Research Laboratory at Conoor, South India, has calculate that a working man needs 2,500 calories of energy from the foc he daily consumes. The present diet of the average Indian is ve much deficient in respect of animal proteins and vitamins. needs to be implemented by milk and its products and green veg tables to a large extent to maintain health and strength. Ignoran and religious prejudices are only partly responsible for the po diet of an Indian. The main factor is poverty. "The prime cau of half empty stomachs is empty pockets."[1] Investigations carrie out in different places show that as the worker's income rises h eats better food. The coming generations have to be more speciall looked after and their vitality improved. Municipalities an District Boards should try to supply a certain quantity of milk schoolboys in the middle of the day.

II. Increased Production. The experience of Europe ha shown that a rise in the standard of living automatically releas certain physical and psychological forces which reduce the tendenc to population growth. Although the *rationale* of lower fertility ha

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1. Masani, M. R.—*Your Food* Tata Series in Current Affairs, p. 78.

not yet been analysed and understood, yet there is no reason to believe that the same forces will not work in India as in Europe, once the living standards start rising. Population is not a snowball that will go on adding to itself till a catastrophe stops it. "Once the standard itself has become a constantly rising quantity it meets a check sooner or later, and then individuals are prone to seek a qualitative relief by a quantitative limitation.'[1] A material betterment by improved efficiency will produce its natural effect on an individual's procreative tendency. This betterment should be big enough for the average individual to take interest in his own future welfare and can only come about from a thorough planning of both agriculture and industry.

(i) *Agriculture.* Increase in agricultural production needs all kinds of improved irrigation, by canal, tube-well or dam, whichever is suited to a locality. It further needs agricultural machinery of the type suited to India, not necessarily large-scale machinery used in the U. S. A., Canada and Russia with their vast spaces. An intensive use of chemical fertilizers, rotation of crops and dry farming methods would increase the produce per acre and enable India to wipe off her present deficiency in rice. Provinces in which culturable waste land is available, *e g.*, the C.P., Assam, etc., should have Land Reclamation and Rural Settlement Departments as in Italy for agricultural colonization. Fair and stable prices must, however, be guaranteed to the producers either through tariffs or through international action, for the ultimate objective is an improvement in the standard of life of all classes of people including the peasant.

(ii) *Industry.* In spite of the handicaps on imports of capital goods, the war has enabled Indian industry to develop in many directions. It has been recognized that India should meet her own needs of processed articles and that Britain should content herself with supplying India with machinery and tools and goods of a finer quality not yet possible to manufacture in India. Production of more goods has become an urgent necessity to-day for another reason too, that of checking the spiral of inflation. Full employment, a higher standard of living and exports of processed commodities will ultimately relieve the pressure of population.

III. Education. Indian masses are uneducated and ignorant. The 1931 census literacy figures show India to be the most backward of all nations in this respect.

No amount of propaganda can check numbers unless the impetus comes from the people themselves Population will run up to the increased means of subsistence so long as education and birth-control schemes do not work simultaneously. Hence free compulsory primary education along with a comprehensive plan for educating adults is essential. The scheme of "each one, teach one," should prove very useful here. No scholarships and fee concessions should be granted to students in colleges till they undertake to make *two* persons literate. Russia has worked miracles by a planned system of education in a short period of time. For India the 1941 census showed a 70 per cent increase in literacy over the 1931 figures, 60 per cent for males and 150 per cent for females. With such growth in literacy there is no reason to despair, for the ball gathers momentum as it travels further. Things are bound to improve and brakes will apply themselves automatically to the "torrents of babies" visualized by some pessimists.

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[1] D. G. Karve, *Economci Studies*, p. 134.

Suggestions for further reading :—

1. Gyan Chand—India's Teeming Millions.
2. Census of India Reports for 1931 and 1941.
3. Brij Narain—Indian Economic Problems, Vol. I.
4. P. K. Wattal—Population Problem of India.
5. Ramaswamy—The Economic Problem of India.
6. R. F. Harrod—Britain's Future Population.
7. D. G. Karve—Indian Population.
8. N. P. C. Series—Report on Population.
9. N. P. C. Series—Report on Crops.
10. Indian Year Book for 1948.
11. C. N. Vakil—The Effects of Partition.
12. D. Ghosh—Pressure of Population and Economic Efficiency in India.

CHAPTER III

SOCIAL AND RELIGIOUS INSTITUTIONS

1. The Importance of Social Institutions in Economic Life. Economic activities are intimately mixed up with social and cultural and cannot be isolated. On the other hand, man's character is influenced by his everyday activities. As Dr. Marshall says : "The two great forming agencies in the world have been the religious and the economic." The industrial and commercial life of a community is thus a necessary corollary of its religious and cultural institutions. This thing is perhaps more true of India than of most other countries.

2. Religion in India. Religion has always been the dominant force in the life of people in India. It has shaped and will continue to shape the course of Indian history. There is no aspect of life here which has not been coloured and moulded by religion. The differences of sect and form are only on the surface like ripples and waves on waters that run deep. There is the same deep water, deep as the ocean, of religion in Indian life.

Very often religion is covered over by ritual and shibboleth, the true meanings of which are lost in the mists of time. Sometimes it has degenerated into an opiate instead of serving as a stimulant for morale which is its purpose. Then it needs reform. But one of the central elements in Hindu religion has always been the attainment of mastery over "self" through renunciation and penance. This is poles apart from the mastery over "matter" which the West has inculcated. Scientific and economic developments have brought about great material progress in the West but they have neither abolished poverty nor made men more happy. On the other hand, "we have had the bread-lines in many cities in the shadows of skyscrapers, and of storehouses of food bursting because there have been no purchasers."[1] Mechanization has reduced the need for labourers and made many jobless. The gulf between the poor and the rich has widened to result in strikes and boycotts. The two recent world wars have utterly disillusioned the thoughtful and laid bare the inherent weakness of Western materialistic culture.

Indian religion, and here we refer to Hinduism, has often been blamed for its unprogressiveness. The lack of progress on Western lines and the absence of a keen struggle for existence on the Western scale are supposed to be the results of Hindu spiritualism. It has become a fashion with some university students to reject religion but it is neither common nor has it penetrated to the masses. This critical revolt is serving a healthy purpose in that it is moulding Hinduism to changing circumstances and relieving it of many irrational inhibitions with which tradition and custom have cluttered it.

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[1] Miller—*The Beginnings of Tomorrow*, p. 92.

It is not Indian spiritualism that is the root cause of pessimism and poverty in India The truth in religion teaches energetic endeavour for a better physical life and not renunciation. To be in the world, to serve it, to earn wealth, to utilize it for the benefit of the many and to attain a spiritual destiny,—these are the ideals before an average Indian. To get the best of both worlds, the physical and the absolute, is not an impracticable end from the Indian view-point.

The causes of Indian poverty and pessimism are different. India is a tropical country with virulent diseases. The span of human life is short. Drought, famine and malaria have engendered a gloomy outlook. Foreign invasions and alien domination have added to the depressing effect. It is these things that are responsible for the hopeless outlook of the masses in India, and not religion which is her glory. It would not be an exaggeration to say that in the future Indian religion will serve as a leaven to tone down Western materialism and work for the greater contentment and happiness of the whole world.

3. Social Institutions—The Caste System. One of the oldest institutions in Indian society is the caste system. Its roots are embedded in the hoary past. The tree still flourishes to-day, not with its pristine glory, but strongly enough to throw a far-reaching shade. The Hindu still largely obeys its taboos and its sanctions. Inter-marrying between different groups, even inter-dining with members of the inferior groups, is not permitted. No reasons are advanced but there are certain things that are not done. Age-long inhibitions stand in the way. The *Imperial Gazetteer of India* vividly describes the idea : "Birth determines irrevocably the whole course of a man's social and domestic relations and he must through life eat, drink, dress, marry and give in marriage in accordance with the usages into which he was born."[1]

The same authoritative tome defines caste as a "collection of families or groups of families bearing a common name, which usually denotes and is associated with a specific occupation, claiming common descent from a mythical ancestor human or divine; professing to follow the same calling; and regarded by those who are competent to give an opinion as forming a single homogeneous community."[2]

Origin of Caste. Many eminent writers have tried to find how caste originated but no scientific conclusion has so far been arrived at. Dr. Marshall writes: "In early times when religious, ceremonial, political, military and industrial organizations were intimately connected, and were indeed different sides of the same thing nearly all those nations which were leading the van of the world's progress were found to agree in having adopted a more or less strict form of caste."[3] Caste normally developed with the Aryans wherever they

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1. Vol. I, p. 323.
2. Ibid, p. 313.
3. Marshall—*Principles of Economics*, p. 244, 1936 Edition.

went and settled : in Greece, Rome and India. Contacts with the aboriginal races who were relegated to an inferior position resulted in racial discrimination.

James Mill[1] believes that caste system developed as the result of the need for a systematic division of labour. The Brahman and the Kshatriya usurped the superior position with the passage of time as their functions were more important and, for the same reason, their position grew to be hereditary. In the beginning, the castes were not so many water-tight compartments and movement from one to the other was possible. Later, as vested interests grew stronger, caste grew more rigid until it was absolutely impossible to cross from one group to another. The four functional caste groups are teaching and preaching which made the priest-caste ; administration and protection; agricultural and commerce; and service and manual labour. Their corresponding names are the Brahman, the Kshatriya the Vaish and the Sudra.

Demerits of Caste. Caste system possessed a great many merits when it was initiated but with the growth of vested interests its divisions grew rigid and most of its merits vanished. Lack of flexibility is responsible for most of its faults. "A caste," says Risley, "is an organism of the lower type: it grows by fission, and each step in its growth detracts from its power to advance or even to preserve the art which it professes to practice."[2] Dr. S. Radhakrishnan also voices the same opinion. Says he : "Unfortunately this device to prevent the social organization from decay ultimately prevented it from growing."[3]

Today caste stands in the way of the economic progress of the country. It debars people from taking up professions for which they have inborn aptitudes and puts many round pegs in square holes. It obstructs the mobility of labour in the country as people of higher castes can neither mix nor work with those of inferior ones. Caste strikes at the roots of the solidarity of labour, being fissiparous in effect. It creates heterogeneous groups in the same factory and impedes the growth of strong trade unions which are very desirable in a country ambitious of industrialization, for they bring about class balance of power and promote industrial peace.

This crazy "patchwork quilt" with no warmth in it is mainly responsible for the political disunity of India. In its later stages it developed a superiority complex in the upper castes which resulted in India's "Untouchables" and her "Unapproachables" in the South. After meting out inhuman treatment to the so-called depressed classes the average Brahman gives himself a pat on the back and feels that he has added to his holiness. The idea of human dignity is wholly non-existent. The Hindu agriculturist is averse to the use of bone and fish manures on his lands for fear of losing caste and being boycotted by the village society. On similar grounds, the use of certain kinds of food, like meat, is forbidden for some people, thus giving them an unbalanced diet and a weak body. Constant inter-marriages in the same small group are responsible for a deterioration in health and physique.

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[1] Father of John Stuart Mill.

[2] Risley—*People of India*, p. 270.

[3] *Indian Philosophy*, Vol. I, p. 113.

Achievements of Caste System. The planning of society in the past paid less attention to the individual than to the group. Caste meant the partial sacrifice of the one in the interests of the many. Personal greed and aggrandizement were at a discount, while social stability was at premium. Caste has been defined by its admirers as "ancient time-tested scientific socialism maintaining the balance of power between the vocational classes."[1]

It was caste which was responsible for the development of an autonomous village organization with the Panchayat as the pivot of its body politic. The Panchayats have shown great vitality and provincial governments are making efforts to revive them in the villages in their pursuit of rural uplift.

To divide society into groups and initiate a simple division of labour was a great brain-wave. It brought method and order out of chaos and resulted in great economic advancement. In fact it put the Aryans in the van of progressive nations. There was no need to find an occupation for a young entrant into life. His place was ready the moment he was born. As he grew up he had all the opportunity he needed to learn his art in the most sympathetic school he could go to—the parental school He inherited not only his father's property, but all his skill and craft and passed them on to his son in his turn. "Thus was the ancient tradition preserved, social tranquillity safeguarded, civic and economic welfare secured, individual happiness and contentment promoted."[2] Caste killed discontent. The idea propagated was that everyone was born according to his actions in his past incarnation and had to occupy the place he was destined to. There was, therefore, no occasion for jealousy of those who were better placed in life. Thus caste minimized class conflict and served as an insurance against the uncontrolled working of economic forces which have resulted in much evil.[3]

Conclusion. The new forces unleashed in India by Western contacts have been working hard to destroy the caste system. The urban areas have grown more liberal-minded due to large influx of immigrants from all over the country. Inherited professions, being incompatible with modern demands, have had to be discarded. The educated classes have led the revolt against the bonds of caste system. They openly scoff at the taboos which religion and caste place on their actions and have no hesitation in "inter-dining" with all sorts of people and eating all kinds of food.

The railway and the bus have worked effectively towards the breakdown of untouchability and unapproachability. High- and low-caste people are all crowded together in third class compartments. They have perforce to appease hunger and thirst with the kind of food available on the railway platforms without the "necessary" bath to remove pollution.

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[1] Bhagwan Dass—*Ancient vs. Modern Scientific Socialism.*
[2] R.P. Masani on Caste in *The Legacy of India*, Ed. Garrett, p. 151.
[3] Masani—Ibid. p. 159.

The reform movements in the Hindu religion itself have worked in the same direction. The Arya Samaj, for instance, recognizes no caste, and approves of inter-caste marriage and inter-dining. In North India Sikhism has been a very strong force to destroy social taboos and to recognize human equality. Islam has also contributed its share in undermining caste all over India.

It will have to be admitted, however, that those who fifty years ago, believed that the system was already on its last legs and predicted its speedy submergence, have been proved false prophets. Caste is still a potent force in the lives of millions. Caste has stood the test of centuries but in course of time has grown many harmful excrescences. Lopped of these it may still prove a useful institution and "secure social efficiency on the democratic and socialistic principles of class collaboration and the rule of law."[1]

4. Joint Family System. The typical joint family consists of a father, his sons and grandsons, together with the corresponding women-folk until some of them are married off and enter into other joint families. Jointness is the normal condition of Hindu society but partition can be had on demand. So long as the family is undivided, it possesses a common kitchen and property. The earnings of all the members are put in a common pool out of which the needs of every member are defrayed The seniormost member of the family controls and conducts affairs with the advice of others but his voice is final.

Demerits of the System. The junior members of the joint family feel no responsibility and are apt to be improvident. They borrow from the Bania recklessly on the credit of the family. At the time of marriage or death in the family and at other religious ceremonies like the "Mundan" and "Janeo," there is a great deal of waste, often resulting in indebtedness.

As food and dress are assured without hard work in the joint family system it is bound to grow a good many drones. In fact this is the strongest argument against any form of communism. The total family income has to be spread over a far larger number of claimants than in the West. The power to save is impaired and the accumulation of capital small. Besides, the burden of a large family deters a man from pioneering new enterprises and launching into risky ventures. In such uncongenial surroundings it is impossible for individuals to develop initiative.

Merits. The world is to-day satiated with uncontrolled capitalism. All eyes are set towards the bold experiment of socialism in Soviet Russia. The theory is not new to the world. The germ is contained in the Hindu joint family where every member works according to capacity and consumes according to need. The strict Russian model is not suited to conditions prevailing in many countries, but the Indian institution, according to some, can be of universal application. Its introduction brings no travail, no bloodshed in its train and yet in a way it is as thorough—it provides for everybody. It promotes the spirit of co-operation and unselfish service. The family is the nucleus and its motto is "All for one and one for all."

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[1] Masani—Op. cit., p. 161.

The curse of uneconomic holdings does not arise so long as the family's landed property remains undivided. It is the spirit of individualism that has brought about the partition of ancient holdings with increasing frequency. The joint family has been called "an anachronism "[1] But according to some, it is the only possible remedy for uneconomic holdings—the most ruinous fault in Indian agri culture. It makes possible "joint farming of the inheritance without partition."[1] Co-operative farming, however, can serve the same purpose, and it is preferable since it does not involve the disadvantages of the joint family system.

Conclusion. The joint family system is disintegrating rapidly —much more rapidly than the caste system—due to the great increase of population in India and the spreading of Western education, thought and culture. The old respect for the patriarch of the family is disappearing while the bonds of family discipline are loosening. But the principle underlying the system is a valuable one and should be taken advantage of through multi-purpose co operative societies.

5. The Laws of Inheritance and Succession. Succession among Hindus is governed by the Mitakshara and Dayabhaga schools of law. The Dayabhaga form is peculiar to Bengal, the Mitakshara is prevalent in all other parts of India.

(i) *The Mitakshara system.* Under this system the ancestral property is owned and enjoyed by all members of the family as a body. The head of the family is only a manager for the time being. He has no right to dispose of the property without the consent of all the male members. *The family is a corporation in which the rights* of individuals are not defined or ascertained. In case of a member's death there is no succession to his share. It automatically becomes the property of the survivors. The family remains joint till there is a partition of ancestral property. When such a thing happens, the sons have equal rights with the father.

(ii) *The Dayabhaga.* Under this system, the head of the family is absolute owner for his life-time and can dispose of the property as and when he thinks the family's good requires it. Under this law there is succession even in joint property and a dead member's share goes to his heir. There is no partitioning between father and son, only between brothers.

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[1] Jathar and Beri—*Indian Economics*, Vol. I.

Under both systems of law females have no right to ancestral property. Both the systems are unanimous in giving the head complete rights over self-acquired property. The law of primogeniture does not obtain in India, except in the case of rulers of States and some big *zimindar* estates in which partition is not allowed and the eldest son succeeds to the whole property. But generally, "corporate property is the rule in the East. Individual property is the rule in the West."

(*iii*) *The Muslim Law.* Islamic law gives a share of the property to females as well as to males though not on an equal basis. But in actual practice in most provinces the customary law of Hindu origin is followed even by the Muslims. There is a growing desire now to introduce the Islamic law of succession.

(*iv*) *Economic Effects of the Laws of Succession.* It cannot be denied that both Hindu and Muslim schools of law are equitable. They make no distinction between the first-born and the last-born at the time of partition of property. Thus they save people from futile heart-burning. Under these laws every one gets a start in life and a self respecting middle class is fostered. Such a middle-class serves as the backbone of both society and government. In the village self-reliant peasant proprietors serve as the best defence against foreign invasion and internal disorder. That an individual's share is small is all the better; a small share provides an added incentive to hard work and self-help. The evils of capitalism are avoided and wealth is more equitably distributed.

The laws of succession are responsible for a good many evils too. Land gets sub-divided into smaller and smaller pieces, till it is absolutely uneconomic to cultivate. Sub-division brings fragmentation in its train—as great an evil if not a worse one. The laws encourage litigation which wastes time and money. They also hinder savings and discourage large-scale enterprise.

6. Panchayats in India. It will not be out of place here to study the functions of Panchayats. In olden times they covered all aspects of life in the village. As the result of centralized Government they lost much of their power and usefulness. Recently, however, efforts are being made to resuscitate them. In the Punjab the Village Panchayat Act was passed in 1939. It is proposed to amend it in East Punjab so as to bring it in line with the U.P. Panchayat Raj Act which has been called 'one of the greatest experiments in rural democracy and decentralization. East Punjab has already 4,400 Panchayats and 5,600 more are intended to be added.

The Panchayats have both administrative and judicial functions.

Their administrative duties are more or less like the duties of Municipal Committees and they look after and are interested in all the aspects of communal life in the village, *e.g.*, agriculture, trade, industry, health, festivals and means of communication.

From the judicial point of view they have powers of the lower Civil and Criminal Courts and they can try simple offences like theft, trespass, simple hurt, etc. They also take into cognizance breaches of the Primary Education Act, the Cattle Trespass Act, and the Vaccination Act. They can impose fines up to Rs. 50. It is proposed to enhance these powers up to a fine of Rs. 250. Selected Panchayats may be allowed to hear suits when the value of the debt does not exceed Rs. 500.

Appeals from the Panchayats in Civil cases lie to the District Magistrate and in Criminal cases to the District Judge.

The village "Panchayat-ghar" serves as a meeting-place for the village community and as a cultural centre. It also houses the village library and reading room and may have a battery-radio set installed if funds allow.

It will thus be seen that the Panchayats can play a very important part in the social life of the Indian village. The villager will realize his own strength and collective power and the minions of law will not be able to bully him. He will start on the high road to democratic power and exercise it as a citizen of the village republic.

Suggestions for further reading :—

1. Risley—The People of India.
2. Miller—The Beginnings of Tomorrow.
3. R. P. Masani—The Legacy of India.
4. Bhagwan Das—Ancient *Versus* Modern Scientific Socialism.
5. Radhakrishnan—Indian Philosophy.
6. The Punjab Village Panchayat Act, 1939.
7. U. P. Panchayat Raj Act, 1947.

CHAPTER IV

A GENERAL SURVEY OF AGRICULTURE

1. Place of Agriculture in Indian Economy. After studying the physical and social background of India we are now in a position to discuss her economic problems. They are of all kinds—agricultural, industrial, monetary as well as those pertaining to banking, trade, transport and prices. Let us start with agriculture. The importance of agriculture to India can hardly be exaggerated. Every *two* persons out of *three* are directly engaged in agriculture, and many more are indirectly maintained by it. Thus a very large majority of the people depend on it for their livelihood. It supplies them with food products as well as provides raw materials for their industries. It is a source of employment for the trading classes and revenues for the Government. Thus the prosperity of agriculture is synonymous with the prosperity of India and her people.

Unfortunately Indian agriculture is far from prosperous. Far too many people are engaged in it, wasting their time and energy. This overcrowding is one of the major problems of Indian agricultural economy and the pity is that it is on the increase. In 1901, only 67·4% of the people were busy with the production of raw materials. In 1921 the number increased to 73%. That only 66% are shown to be doing this work in the Census Report of 1931 is due to the adoption of a different method of classification. Otherwise this number might well have been 73 or even 75%.[1] The gravity of the problem of increasing pressure of population on land is also apparent from the fact that whereas 17·5% people were employed in industries in 1911, only 16·3% were so in 1931. Obviously the increasing numbers have not been absorbed in industries and handicrafts and have been thrown upon agriculture. The pressure on land has thus resulted in the serious problem of subdivision and fragmentation and in the appalling poverty of the masses in India.

2. Inadequate Production. Although such a vast majority of the people is engaged in agriculture and about 80% of the total area is also under food crops, yet India is unable to feed her own population at even the current low standards of living. Before 1914 India exported food grains, while to-day she actually imports between 2 and 3 million tons of foodgrains per annum. It is seen that while the population of India (excluding States) increased from 257 million in 1931 to 296 million in 1941, the total production of foodgrains actually decreased from 49·1 million tons in 1929-30 to 47·2 million tons in 1939-40.

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[1] Indian Finance 1943 p. 261-2 quoted by Wadia and Merchant op. cited.

3. Malnutrition and Poverty. Not only is the quantity of food available in India inadequate, but quality is also unsatisfactory. The people's diet is unbalanced and there is a chronic deficiency of protective foods like milk, fruits, vegetables and eggs. The result is a high incidence of disease, heavy mortality, and low longevity. These factors in their turn react on the efficiency of the agriculturist and result in his dire poverty. The average income of an Indian was estimated to be Rs. 65 per annum in 1931-32 and that of an agriculturist was still lower. Even in these days of inflation and high prices the income estimates are ridiculously low.[1] Universal poverty has resulted in universal indebtedness. Only a very small minority of the Indian people enjoy amenities like medical relief and education which are considered to be their birthright by people in other lands.

4. The Role of the State. When the people are ignorant, it is the duty of the State to come to their rescue. Unfortunately till recently India had an alien Government who were more interested in protecting British interests than Indian. They went even further and actually pursued policies which ruined our handicrafts and left the peasant helpless. Faced by recurring famines in the closing decades of the last century and pressed by their revenue requirements, the Government did introduce a few halting measures which brought some relief to the agriculturist. Improved seeds, manures and implements were introduced. Efforts were made to improve the breed of cattle. Irrigational facilities were extended. Steps were taken to relieve the burden of rural debt by regulating the activities of moneylenders and through co-operative credit. Some attention was given to the problems of marketing and consolidation of holdings. A Rural Reconstruction movement was also initiated during the critical years of the economic depression. But all these efforts failed to raise standards of the rural masses to any appreciable extent. The reason was that instead of tackling the basic causes of the disease, the State in India merely attacked the symptoms. The basic problem was left untouched.

5. The Basic Problem. The basic problem of Indian agriculture relates to the ownership and distribution of land combined with the absence of alternative occupations to absorb the surplus population. Thus, *firstly* a high proportion of the land is in the hands of large owners who are mere rent receivers and contribute nothing to its development. *Secondly*, there are far too many people engaged in the cultivation of land than are necessary for its proper exploitation. This has reduced the unit of cultivation to ridiculous proportions. Not only are the holdings small but they are scattered in fragments due to the operation of the existing laws of inheritance and succession. Thus the cultivators have neither the incentive, nor the capacity for better methods of agriculture. Hence the productivity of land *per acre* is low. But it is still lower *per man* because of the pressure of population on land. Universal poverty under these conditions is surely inevitable.

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[1] See Chapter on National Dividend.

6. **The Way Out.** The above analysis will indicate the way out of this difficult situation. Three separate steps are indicated.

Firstly. The actual tiller of the soil must have the incentive to put in his best efforts. This means that he must be sure of reaping the full reward of his labour. Thus either he should own the land that he cultivates or he should be ensured of holding it for an adequate period of time. Further, the demands of the State and the landlord should be reasonable and be fixed over long periods.

Secondly. The unit of cultivation must be increased. Mere consolidation of a small holding is not enough. For scientific agriculture large-scale mechanical operations are necessary. One method is abolition of private ownership of land and its collectivization. This may involve insuperable difficulties under Indian conditions where private property is greatly cherished. Another method is pooling of private ownership without its abolition. We shall study the implications of this suggestion in due course.

Thirdly. New employments must be found for the surplus population both in the villages and towns. This implies a policy of all-round industrialization both on the small and large scale.

7. **The Need for a Planned Economy.** No agricultural progress is possible without a simultaneous development of industry in the widest sense of the term. With industrial and agricultural development are closely connected developments of transport, trade, banking, currency, etc. All must be tackled simultaneously for any results to be achieved. Hence the necessity of Central guidance and control. The *laissez faire* system is wasteful. There is an urgent need for planning the whole economy of the country as well as its each separate aspects including agriculture.

We shall now proceed to study the present unsatisfactory position of agricultural production in India.

8. **Distribution of Area.** There is a general complaint in India about the paucity, unreliability and obsolete character of published data. This complaint is the greatest in agricultural statistics. The paucity is mainly due to illiteracy of the rural population and the inefficiency of collecting officials. The total area of India

and Pakistan in the year 1945-46 was distributed as follows :—

In Millions of Acres (Percentages in bold letters)
1945-46

Country	Total Area	Under Forests	Not available for cultivation.	Cultivable Waste	Fallow Land	Net Area Sown	Irrigated Area
Indian Dominion	403	62 4	62·4	68 5	37.9	170·8	39 2
Percentage	**100**	**15·5**	**15 5**	**17**	**9**	**42·4**	**9 7**
Pakistan	109.6	5 3	27 9	2 .1	8 9	46 2	20 3
Percentage	**100**	**5**	**25**	**19**	**8**	**42**	**35·6**
India before partition	513	6·8	90	9	47	217	59
Percentage	**100**	**13**	**18**	**18**	**9**	**42 3**	**11·5**

We can draw the following conclusions from the above table :—

(1) Inclusive of forests 31% of the total area is not available for cultivation, and if fallows are included 40 per cent comes under this category.

(2) About 17% of the area in the Indian Dominion is cultivable waste land. Due to chronic deficit in food supply, strenuous efforts are being made by the national Government to bring under cultivation as much of this area as possible by multipurpose projects and irrigation schemes.

(3) Only 10% of the area in India is irrigated, the rest depending on rainfall. Hence a very small proportion (16% for both dominions) is sown more than once in a year.

(4) The net sown area in the Indian Dominion is 171 million acres which comes to about one acre of the agricultural population and about three-fifths of an acre per head of the total population on the basis of 1941 census. If we take into account the increase in population today (1948) the area per head must work out at less than half an acre.

9. **Relative Importance of Crops.** Of the total sown area (including area sown more than once), amounting to 248 million acres in 1940-41, 80% was under food crops and the remaining 20% was under non-food crops. Foodgrains alone accounted for **75 per cent of the total. This indicates the unsatisfactory state of**

our economy. Three-quarters of our population and four-fifths of our cultivated area are busy producing food but still it is not enough for the people and the Indian Union has to import huge quantities of rice and wheat amounting to more than 2 million tons from abroad (2·8 million tons in 1948).

The following table indicates the relative importance of principal crops grown in India and Pakistan.

FOOD CROPS IN 1945-46 & ONWARDS. (IN LAKHS OF TONS)

Indian Union	Rice	Wheat	Jowar	Bajra	Maize	Ragi	Barley	Gram	Total	Sugar-cane.
1945-46 (Final)	185	59	56	27	21	12	20	31	411	45.5
1946-47 (Revised Estimates)	198	47	53	27	20	15	24	36	420	49
1947-48 (Forecast)	188	53	57	25	21	14	25	43	426	53
Pakistan 1945-46	82	31·2	2·2	5	4·3	...	1·2	6·2	132	9

NON-FOOD CROPS IN 1945-46. (IN LAKHS OF—)

	Oil-seeds (Tons)					Fibres Bales of 400 pounds		Beverages (pounds)		Miscellaneous		
Indian Union	Sesamum	Groundnuts	Rape and Mustard	Linseed	Castor	Cotton	Jute	Tea	Coffee	Tobacco (tons)	Indigo (E.N. Ts)	Rubber (pounds)
1945-6	3·5	35	7	3·5	1·2	21	15.5	5017	504	3.3	...	...
1946-7	3·2	36	8	3·3	1·2	21	n.a	n.a	n.a	n.a		
1947-8	3·3	35	8	3·6	1·3	21	...	...	...	...	...	...
Pakistan	·3	...	2	·1	...	14	62	733	...	1	...	...

From the above table it is clear that food crops, specially rice and wheat, are more important from the point of view of production. Later on we shall see that cash-crops like cotton, jute, tea and oil-seeds (specially groundnuts) are important from the point of view of exports to foreign countries.

The Foodgrains Policy Committee in their final report of 1948 estimated a total production of 40·4 million tons of foodgrains in India in 1947-48 against 39·5 in 1946-47. This estimate includes Indian States and Hyderabad. The partition of the country and rise in population has increased the dependence of India on imports of foodgrains from foreign countries.

10. Study of Food Crops. A word may now be said about each of the principal crops produced in India.

(*i*) *Rice.* Rice is the most important crop of India. It is grown in low-lying, well-watered, tropical regions. It is a winter crop and is harvested from December to January. Different varieties of rice are grown in different parts of the country according to local conditions. In Bengal, for instance, there are two harvests—the *Aus* or the early crop, and the *Aman*, the later crop. *Aus* requires less rainfall than *Aman*, is coarse and is eaten by poorer classes alone. In case the rains fail, it also serves as a provision against famine. In deltaic swamps, rice is practically the sole food crop.

In 1945-46 in the area covered by the Indian Union now, 58 million acres were under rice, producing 18 million tons, against Pakistan's 22 6 million acres producing 8.2 million tons. The area under rice is the largest under any single crop.

Since the separation of Burma, India has become a net importer of rice. In 1939-40 she imported 1·8 million tons of rice, mostly from Burma. India's produce of rice per acre is low and has been declining Experiments in manuring and watering are urgently needed.

There has been a serious world shortage of rice in recent years. The world production before the war was 200 million tons. In 1945 it was only 168 million tons. A world conference has been studying the problem of production and distribution of rice every year since the end of war under the auspices of the Food and Agricultural Organization (F. A. O.).

The Indian Dominion has been allotted considerable quantities of rice and wheat every year by the F. A O. but the prices paid have been very high. It has been estimated that the total imports of rice and wheat in 1948 were 2·8 million tons and their cost Rs. 110 crores, but as the Foodgrains Policy Committee remarked in 1948, "It is clearly impossible to go on buying them at anything like the prevailing prices in the quantities deemed to be necessary."

(*ii*) *Wheat.* The total area under wheat in 1945-46 in the Indian Dominion (present area, including Hyderabad) was 24·4 million acres which produced 6 million tons of wheat against Pakistan's 10·4 acres and 3·1 million tons of wheat. From these figures it is obvious that whereas an acre in Pakistan produced more than 8 maunds of wheat, in India it produced only 7 maunds. Further the produce per acre differs greatly from province to province, being 882 lbs. per acre in Bihar, 728 in the Punjab and 231 in Hyderabad. Even our best is much less than 1,140 lbs per acre in Europe, 972 in Canada and 846 in the U.S.A. Thus there is scope for improvement in India if science comes to our aid and our agrarian economy is suitably organized. Dr. Burns has estimated that the annual loss from rust is about 5% of wheat produced in a year when there is no epidemic but in badly affected places it comes up to 100%. Rust-resistant varieties need to be evolved. Another disease, smut, has also to be dealt with. It can be eradicated through the hot water treatment devised by Prof. Luthra of the Punjab Agricultural Department. Irrigation, manures and rotation of crops will increase our yield.

Before 1914 India exported some wheat, but now she imports it. The condition is, however, not desperate in spite of the present acute shortage. Area under wheat can be increased as well as produce per acre improved.

(*iii*) *Barley*. Indian Union has about 6·2 million acres under barley, 2/3rd being in the U. P., the rest in Bihar and East Punjab. We produce about 2 million tons, against Pakistan's one lakh tons. ✓ This crop is more of a cash crop than food crop, being mainly used for making malt. It is used in India for making beer and is also exported to the U.K. and the U.S.A.

(*iv*) *Millets* (Jowar, Bajra and Ragi). Total area under millets in the Indian Union is about 66 million acres (including Hyderabad). They are grown all over the country but more commonly in the dry areas of Bombay, Madras, Hyderabad, the C.P. and the U.P. They are a *Kharif* crop and need little more water than what the S.W. monsoon brings. As the result of experiments at Lyallpur, Nagpur, Coimbatore and Indore improved varieties are now sown which give a higher yield per acre.

They are the mainstay of the poorer classes in the country. Bajra has more fat and a higher calorific value, while ragi contains more calcium than wheat. Jowar will always remain one of the main crops of India in areas of less rainfall. Hence further research in dry-farming methods with measures against smut and birds will increase the total produce without any increase in area.

Millets are also useful fodder crops.

(*v*) *Pulses*. Various pulses like gram, urad, masur, moth, mattar, arhar, etc., are grown throughout the country and form an essential part of the diet of the people. Gram is the leading pulse and is mainly grown in East Punjab and the U. P. In 1948, gram occupied 15 million acres in the Indian Union (including Hyderabad) and 3 million acres in Pakistan. The yield in India was 3·1 million tons, in Pakistan 6 million tons. The range of variation in the yield per unit in different parts of the country is great, being only 50 lb. in Bombay, 500 lb. in Gujarat and 1,200 lb. in the Punjab.

In 1940, a special committee was appointed by the Imperial Council of Agricultural Research to co-ordinate research on the pulses of India and to develop in each case a seed variety and develop other conditions like mixed cropping and manures which would increase the yield. The fodder value of the pulses is not to be sneezed at.

(*vi*) *Maize*. In 1945-46 there were 8 million acres under maize in the Union of India, which yielded about 2 million tons of grain against about 4 lakh tons in Pakistan. The main producing areas are the U. P. and the Punjab. Maize is an important foodgrain for the poorer classes in Northern India. The stalk serves as fodder.

(*vii*) *Sugarcane*. Area under sugarcane in India is larger than in any other country of the world. In recent years, the protection that the sugar industry has been enjoying has stimulated the production of sugarcane. Today there are about 3·1 million acres under sugarcane in the Indian Union. The chief cane-growing provinces are the U. P. and Bihar. The average yield per acre and the quality of cane produced in India are inferior to other important producing countries. Recently the Government has given special attention to improve the quality and supply of sugarcane. A cane-breeding station was started at Coimbatore in Madras and the Provincial Agricultural Departments have introduced many new varieties of sugarcane, which give greater yield per acre.

11. Non-Food Crops. (*i*) *Tea.* Bengal and Assam produce 80% of Indian tea. The principal non-food or cash crops are cotton, jute, tea, coffee, tobacco, opium, rubber and spices. They are primarily raised for sale, and figure prominently in India's exports. The total area under these crops in the Indian Union in 1945-46 was 37 million acres against 7 millions in Pakistan. This means that 17% of the total cultivated area is under commercial crops in the Indian Union.

Consumption of tea in India is rapidly growing. It is also becoming popular in the U.S.A. This growing popularity is due to the propaganda of the Indian Tea Association which is financed out of a cess of 12 as. per 100 lb. charged on exports, since 1935. India exported tea worth Rs. 24 crores in the first six months of 1948.

(*ii*) *Coffee.* In most places, tea has been substituted where coffee was grown before. The decline has been partly due to the appearance of a destructive beetle and partly to the competition of cheap Brazilian coffee. Coffee is mostly grown in Mysore State (96,200 acres), Madras (49,600 acres) and Coorg (37,500 acres). The area under coffee in India is 212,000 acres producing 25 million lb.

In 1946, India exported one lakh cwt. of coffee, valued at about Rs. 1 crore. Since 1935, the Indian Coffee Committee has been carrying on propaganda (financed by a cess of 8 as. per cwt. on exports) to popularize this beverage, but there is no particular need for increasing the production of coffee.

(*iii*) *Cotton.* The quality of Indian cotton is generally inferior. It is "shorter in staple, poorer in spinning value, and smaller in yield per acre." This inferiority is due to various causes : (*a*) There is no incentive to improve quality because it is exported for mixing with wool and gets fair price as it is. (*b*) Inferior quality is extensively cultivated because it withstands drought better. (*c*) Seed gets mixed up in the ginning factories.

Attempts have been made to improve the quality and yield of Indian cotton. Agricultural Departments have been engaged in the task of evolving superior varieties. In 1917, the Government of India appointed the Indian Cotton Committee "to suggest methods to increase the supply of long-staple cotton in India, to improve ginning and marketing, to prevent adulteration, damping and mixing, etc." The Committee reported in 1919 and recommended :—

(*a*) Botanical work for improvement of quality and increase of yield.

(*b*) Open markets on the Berar system ; publication of cotton prices for the benefit of cultivators ; organization of cotton sale societies and standardization of weights ; and arrangements for protecting seed from adulteration.

(*c*) Formation of a Central East Indian Cotton Association in Bombay, to control the whole cotton trade.

(*d*) Creation of a Central Cotton Committee to promote the welfare of cotton growers, and to bring the Department of Agriculture and the cotton trade closer.

Accordingly in 1934 the Central Cotton Committee held its first meeting, in 1922 the East India Cotton Association was formed and in 1923, the Cotton Transport Act was passed to prevent adulteration. In 1925 Cotton Ginning and Pressing Factories Act was passed with the same object. The Indian Central Cotton Committee has done much to improve the quality of Indian cotton. It has established laboratories and promoted special research in Bombay, Indore and elsewhere. Its activities are financed by a small cess of two annas per bale, imposed on all cotton baled in India. Cotton Markets Acts have been passed in Bombay, Central Provinces and Madras to improve conditions of marketing.

The partition of India has considerably weakened the cotton economy of the Indian Union. India is now a net importer of cotton instead of being a net exporter. The best varieties of cotton, particularly of staple length ¾″ and above, required by the Indian mills, are produced in Pakistan. The exact area under cotton in 1946-47 in India was 11,493,000 acres and in Pakistan 3,367,000 acres, India consumes 9·8 million bales of Pakistan cotton. About 8 lakh bales out of this can be produced in India provided the acreage under cotton can be raised. ✓

(*iv*) *Jute*. During the depression of 1929-35 the price of jute fell very low. To assist the recovery of prices, the Bengal Government asked for a voluntary restriction of 1935 crop but the results of this voluntary effort were not substantial. In 1936, an Indian Central Jute Committee was appointed with a grant of Rs. 5 lakh per year for carrying on research and collection of accurate statistics. With the war came heavy demand for jute. In August 1940, the Bengal Jute Regulation Act was passed to regulate factory hours, to restrict acreage under jute and to control fluctuations of prices of raw jute. Recently the Government has decontrolled jute price. This has led to a great rise in the price of jute.

The cultivation of jute is not an unmixed good. It has displaced rice in some tracts and has thus reduced the supply of food. It exhausts the soil much more rapidly than any other crop. But it covers only about 10% of area in E. and W. Bengal while rice covers more than 72%. Jute exports are absolutely essential for the purchase of much-needed foreign exchange.

(*v*) *Indigo.* Due to German discoveries of synthetic dyes in the closing years of the 19th century India's export trade in indigo received a serious blow. The area under indigo was greatly reduced. In 1896-97, there were about 17 lakh acres under this crops ; in 1940-41 only 65,000 acres were planted with indigo. The principal producing provinces are Madras, the United Provinces, Bihar, the Punjab and Bengal. The future prospects for this crop are not very right as India cannot now revert to make dyes out of it for her own consumption or export.

(*vi*) *Opium.* The area under opium has also declined. Government stopped all exports to China, under the agreement of 1907, and to other countries under similar agreements later. In 1906-07 there were 614,879 acres under opium in British India. This figure fell to only 5,816 acres in 1940-41. The cultivation of poppy is now carried on under a system of Government licence for medicinal purposes only. The chief producing areas are Malwa and U.P. India has made large sacrifices of revenue to meet her international obligations.

(*vii*) *Tobacco.* India is the third largest producer of tobacco after the U. S. A. and China. Now Indian Dominion and States produce 3·3 lakh tons of tobacco on 10·2 lakh acres. Tobacco is grown all over India, but Guntur, Kistna and Godaveri districts of Madras produce best Virginia tobacco used for cigarettes. Guntur, where there is the Central Research Station, is the chief market. In 1946, Rs. 6,66 lakhs worth of tobacco (raw and manufactured) was exported. The U. K. is the chief market. Dr. Jagjiwan Singh has been recently appointed Liaison Officer in London by the Indian General Tobacco Company. To develop her own cigarette industry India must carry on steady research in growing good leaf tobacco as well as train expert flue-curers and thus become self-sufficient in cigars, cigarette and pipe tobacco.

(*viii*) *Fodder Crops.* In 1940-41 there were 10·5 million acres (compared to 2·94 million acres in 1901-2) under fodder crops in India, mostly in the Punjab, Bombay and U P. But in view of the large cattle population, this area is not adequate. In recent years the Agricultural Department has been paying attention to the problem of growing better fodder crops and of storing fodder. Among other grasses Egyptian clover and berseem have been successfully introduced.

(*ix*) *Cinchona.*—Cinchona is mainly grown on Government cinchona plantations in Darjeeling and the Nilgiris. Government plantations were started as early as 1862. During the war the supply of quinine became a serious problem Attempts are being made to plant more cinchona trees in India.

(*x*) ***Rubber.*** Rubber is mainly grown in Southern India—Madras, Coorg and Mysore State. In 1943 44 the total area under rubber in India was 141,000 acres, which yielded 35 94 million lb. of rubber. Due to a heavy fall in prices, production and export of rubber were regulated under an international scheme. This considerably helped the market. During the war efforts were made to grow more rubber in India and also to find alternative sources of rubber. Synthetic rubber is now produced in the U.S S.R., the U S A. and elsewhere.

12. Need for Increasing Production. Attempts have been made from time to time to estimate the *per capita* income of an agriculturist in India. The Statistical Branch of the Department of Agriculture, Madras, calculated some years ago that the average annual income earned per head by agriculturists in the presidency was about Rs. 100. Another estimate of Bombay put the figures at Rs. 100 for urban and Rs. 85 for rural areas.[1] According to Dr. V.K.R.V. Rao[2] while income *per capita* in urban areas was Rs. 162, in rural areas it was only Rs. 48 in 1931. This was a depression year and income was very low. It must have increased substantially since the phenomenal rise in prices during the last few years due to war. Whatever the validity of these estimates of income, the main fact remains that the vast majority of the rural population of India lives perpetually on the margin of subsistence. Every effort, therefore, towards raising this margin is urgently called for.

The income of the agriculturist can be raised (*a*) by increasing the area under cultivation, by adopting methods of extensive cultivation, and increasing productivity per man (*b*) by increasing productivity per acre through intensive cultivation. (*c*) by improving the quality of produce and (*d*) by improving the methods of marketing so that the maximum portion of the price paid by the consumer goes into the pocket of the producer. We shall take the problem of marketing later. At present we are concerned with increased production through extensive and intensive methods.

13 Possibilities of Extensive Cultivation. The table given below shows how the total area of India is being utilized and what changes have occurred in its distribution over a period of about 30 years ending with the year 1940-41.

	Million acres.				Changes in 1940-41 over 1911-12	
	1911-12	1938-39	1940-41	1947	+ increase − decrease	%
(*a*) Under Forests	61·9	62·3	68·3	68·3	+6·4	
(*b*) Unavailable for cultivation	100·3	91·8	87·7	91·9	12·3	
(*c*) Culturable waste	88·8	91·2	97·9	92·2	+3·4	
(*d*) Current fallow	49·7	48·3	45·3	47·2	−2·5	
(*e*) Net sown with crops	202·6	209·4	214·0	213·2	+10	75·3
Total area	507·4	511·9	513·2	512·9	+5·5	1·1
(*f*) Irrigated area	39·7	53·7	55·8	56·8	+17·1	42

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1. "*India in 1931*" p. 156.
2. V.K.R V. Rao.—"*The National income of British India in 1931-32*, p. 89
3. N.F.C. Report on Agra Land Policy and Agriculture, pp. 10 and 26.

It will be seen that the net area sown with crops increased less than 6 per cent during this period of 30 years. Even this increase was mainly due to development of irrigational facilities. Area under irrigation increased by 42 per cent.

How far are there any possibilities of bringing more area under crops ? Let us discuss each of the uses to which land is put as shown in the table above.

(a) *Area under forests.*[1] During the period the area under forests has steadily, though only slightly, increased. There is no question of reducing the area under forests and putting it under crops. Our forest resources are not enough for our needs. Efforts should be made to bring some of the land classed as "culturable waste" under forest. This will supply more grazing facilities and more fuel and timber apart from other economic benefits to the country. It has been planned to increase the forest area to 25% of the total.

(b) *Area classed as "not available for cultivation"* has gone down. The difference appears to be due to changes in the standard of classification. It is very improbable that any substantial part of it could be brought under the plough.

(c) *Culturable waste* also shows variations due to different methods of classification. Some of this class of land has been brought under cultivation with the extension of irrigational facilities. Most of this area is found in the Provinces of Assam (17·6 million acres). C. P. and Berar (14 m. acres), Madras (11·3 m. acres), Punjab (13·9 m. acres), Sind (11·1 m. acres) and U. P. (9·8 m. acres). This area is inferior in quality and needs expensive irrigation facilities before it can be cultivated. Lack of capital for irrigation and drainage, absence of adequate means of transport for the produce, deficiency in drinking water supply and prevalence of disease germs have stood in the way of the cultivation of these lands.

(d) *"Current fallow"* has fluctuated from year to year without much increase or decrease. But the significant fact is the high proportion of the land kept fallow every year. This reflects the primitiveness of our agricultural method. It is a remnant of days when leaving land fallow was the only method of recuperating its powers. With scientific manuring and proper rotation of crops this area could be saved from being wasted. In Western countries fallow has been replaced by intertilled row crops like corn, potatoes and roots. This will involve a change in the character of our agricultural economy allowing more specialization of crops so that lands could be put under those crops only for which they are best suited. The present subsistence farming system will have to be given up.

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[1] In 1945-46 area under forests in the Indian Union was 62·5 lakhs acres and in Pakistan 5·3 lakhs acres.

Conclusion. Professor Shah thinks that "culturable waste land can only be effectively brought under cultivation and its produce economically disposed of, if all the scattered parcels of culturable waste land are treated as public property and exploited or developed by the State as such."[1] Professor Shah has discussed the matter from the long-period point of view as a part of an all-India plan on socialistic lines. From the short-period viewpoint, the scope for further extension of cultivation by private individuals is limited. This is evident from the fact that the net sown area in British India has increased from 186 million acres in 1901 to only 213 million acres in 1947. The largest increase was from 1901 to 1911 when canals were constructed in the Punjab. There has been some increase in sown area during the recent war but this has not been accompanied by a proportionate increase in production. The following table shows the changes in area during the last few years in undivided India.

PERCENTAGE GROWTH OF AREA UNDER SOME IMPORTANT CROPS[2]

(Base: Average of 1936-37 to 1938-39.)

Crop	Average 1936-37 to 1938-39		1939-40	1940-41	1941-42	1942-43
	Million acres	Base	Index	Index	Index	Index
Rice	... 72·8 =	100	102·0	100·3	101·2	102·8
Wheat	... 34·7 =	100	98·0	100·5	98·0	99·0
Groundnut	... 8·0 =	100	104·8	109·6	88·2	92·6
Rape and Mustard	... 5·5 =	100	107·2	108·8	111·5	61·7
Sesamum	... 4·2 =	100	95·9	95·4	95·9	97·7
Linseed	... 3·7 =	100	98·3	95·0	88·5	71·8
Sugarcane	.. 3·8 =	100	95·7	120·8	92·3	94·3
Cotton	... 24·6 =	100	86·6	92·9	95·5	76·0
Jute	... 2·9 =	100	106·0	190·2	72·5	110·5

The great fall shown under linseed, rape and mustard and cotton, has been due to the practical disappearance of the chief markets, to which these articles were exported before the war. In spite of the "grow-more-food" drive and falling off in the area under non food crops, the only increase under foodgrains has been in the case of rice. That also is very moderate.

India is now free. Her Government has realised the urgent need for enhanced production to meet the chronic deficit in food. An all-out effort is being made to meet the emergency with a long-term plan. A large number of irrigation and multi-purpose schemes

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1. *Principles of Planning* by K.T. Shah, p. 34.
2. Figures taken from *War and Indian Economic Policy* by Gadgil and Sovani, p. 62.

like the **Damodar Valley Project** in South Bihar, Kosi Project in North Bihar, Mahanadi Project in Bombay and C. P., Ramapadasagar in Madras and Bhakra Dam and Nangal Project in the East Punjab have been taken in hand. Six million acres, expected to yield an extra 2 million tons of foodgrains, are going to be reclaimed. In 1948, 36,000 acres have been reclaimed in U. P. and C. P., 50,000 acres are planned for reclamation in 1949-50 and a lakh and a half acres in three subsequent years. The initial ploughing is to be done by the Central Government. A few tractors have been purchased and lent to provinces, but many more are needed and India's Food Minister, Mr. Jairamdas Daulatram, recently (Dec. 9, 1948) indicated that the Government of India was going to borrow a sum of Rs. 100 crores from the International Monetary Fund to finance the purchase of bulldozers, heavy tractors and other agricultural implements to make the country self-sufficient in respect of her food requirements.

14 Scope for Intensive Cultivation. We have seen that the cultivated area per head of population in India comes to about four-fifths of an acre. In Japan the cultivated area per head comes to less than one-third of an acre. But as the productivity per acre in Japan is much higher than in India due to the application of intensive methods there is not such a big deficit in food there. Yield per acre in India is almost the lowest in the world. The following table makes this point clear.

COMPARATIVE YIELD IN LB. PER ACRE OF CERTAIN CROPS[1]

	Wheat	Rice	Maize	Sugarcane	Cotton	Tobacco
Egypt ...	1,918	2,998	1,891	70,302	535	...
Germany ...	2,017	...	2,828	...	...	2,127
Italy ...	1,383	4,568	2,079	..	170	1,139
Japan ...	1,713	3,444	1,392	47,534	196	1,665
U S A. ...	812	2,185	1,579	43,270	268	852
Java ...	...	...	...	113,570	...	...
China ...	989	2,433	1,284	...	204	1,286
India ...	660	1,240	803	34,944	89	987

The case of Japan is very instructive for India. It is a country of small cultivators who, like Indian peasants, use very few modern mechanical methods. The problem of irrigation, however, is not so difficult there as is the case in India. Japan demonstrates what can be done, even with meagre resources, by a peasant on a small area of land. The high yield *per acre* in countries like the U. S. A., Canada and Australia is obtained by large-scale agriculture carried on over holdings running into hundreds of acres, by modern machines and scientific methods of cultivation. This high productivity *per acre* also implies high productivity *per man*. High productivity *per acre*, obtained by the labour of a large number of persons, may coexist, as in Japan, with acute poverty of the cultivators. But when the population lacks alternative productive avenues of employment as in India, it is better to aim at high productivity *per acre* even though it involves engaging a large number of workers. So long as the pressure of population on land remains what it is, intensive methods of cultivation should involve less expenditure of land and capital and more of labour.

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[1] League of Nations' Statistical Year Book 1933-34. Table 19.47.

The great possibilities of intensive farming in India will be realised from the following quotation from a note by Sir MacDougall to the Central Banking Enquiry Committee: "If the output per acre in terms of wheat were raised to that of France," wrote Sir MacDougall, "the wealth of the country would be raised by £699,000,000 a year. If the output were in terms of English production it would be raised by £1,000,000,000. In terms of Danish wheat production, the increased wealth to India would be £1,500,000,000 per year."[1]

The yield is not only low but there are wide variations in India itself. For instance in 1940-41 yield of rice per acre varied from over 1,000 lb. in Madras to just over 500 lb. in Bihar; of wheat from 821 lb. in Bihar to 385 lb. in Bombay; and sugarcane from 6,706. lb. in Madras to 1,918 lb. in the Punjab and cotton from 182 lb. in the Punjab to only 50 lb. in Orissa.

These differences may be accounted for partly by natural factors and partly by the low standard of cultivation in backward regions.

15. Causes and Remedies of Low Yield. The best way to cure a disease is to find out its various causes. The causes of low yield are the same as the causes of backwardness of Indian agriculture. Anything that leads to agricultural improvement will automatically lead to higher productivity per man as well as per acre. Broadly speaking, anything that handicaps the cultivator in the exploitation of land is responsible for the low productivity of Indian agriculture. The main causes of low yield in India are: sub-division and fragmentation of holding, inferior seed, primitive methods of cultivation, obsolete implements, inadequate manuring and irrigation, unseasonable rainfall, lack of capital and adequate marketing facilities, defective physical and chemical properties of the soil, pressure of population on land, poverty, ill-health, ignorance and conservatism of the peasant, and his indebtedness, and defective systems of land tenure.

Each of these subjects will claim our attention in the following chapters. We shall make a close study of the problems of Soils, Holdings, Land Tenures, Methods of Cultivation and Equipment, Irrigation and Famines. Generally speaking, however, the yield per acre may be improved in the following ways :—

(*i*) Better rotation of crops.
(*ii*) Greater specialization of cropping according to the qualities of the soils in different localities.
(*iii*) Sowing of improved and selected seed.
(*iv*) Better manuring, better cultivation, regular and sufficient water supply.

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[1] Report, Central Banking Inquiry Committee, App., p. 701.

(v) **Reduction in the damage caused by man and beast, diseases and pests.**

As regards the rotation of crops, unless the size of his holding is considerably enlarged, the Indian peasant has very little to learn from the expert. The accumulated experience of ages has taught him what crops should follow each other to give best results.

Too much specialization of cropping in distinct localities is not desirable. A variety of crops grown by the same village serves as an insurance against price changes and unfavourable seasons. Reasonable specialization in the case of certain staples like cotton, wheat and oilseeds, however, can improve the yield.

As regards selection and improvement of seed, the efforts of the Departments of Agriculture, Provincial and Central, have achieved very striking results in this connection. Improved varieties of wheat, cotton sugarcane, etc., have considerably increased productivity per acre where they are sown. There are further possibilities in this connection.

Better nutrition of plants involves better methods of cultivation, application of necessary quantities of manure and proper irrigational facilities where rainfall is not adequate. Much has been done in this connection too, though much still remains to be done. Canal irrigation has been extended. The Agricultural, Co-operative and Rural Reconstruction Departments have been impressing on the cultivator the importance of conserving the manure that he wastes and burns. Lack of fuel facilities have, however, stood in the way. Better implements, suited to the small pocket and the small holding of the cultivator, have been evolved by the Agricultural Departments, though they have not been widely taken up due to the lack of capital resources of the average peasant. Utilization of the co-operative principle in this connection can work wonders.

Finally, the problem of fencing against man and beast can be simplified, like so many other problems connected with cultivation by consolidation of holdings. The movement towards consolidation should be accelerated by propaganda, persuasion and where necessary by the force of law. The problem of the small unit of cultivation could be finally solved by the introduction of a system of joint management. As regards pests and diseases, the Agricultural Departments have done useful work in the investigation of the nature of such diseases and in suggesting methods of their control. These ideas require greater propagation. For these remedies to yield maximum results, a programme of general and agricultural education is necessary to prepare the peasant to receive new ideas. In the meantime, however, all efforts at improvement should continue.

Most of the above mentioned remedies will, however, be useless till economic holdings have been created by consolidation or otherwise, and maintained permanently as such. Of course, the size of a holding will vary according to the nature of the soil and the technique and equipment available in the region. The Zamindari system should be abolished as quickly as possible and the lands acquired by the State. They should be split up into economic holdings and given to such tenants as will actually cultivate them and not sub-let them. Morcellement of such holdings should be forbidden by law .

Besides, cultivable waste lands amounting to 140 million acres in the provinces and States of the Dominion of India should be brought under cultivation and their cultivation organized on a co-operative basis. This co-operative farming should include all branches of agricultural work. Private ownership of land should be permitted in these co-operatives but working should be in common and the distribution of produce should be in accordance with the contribution made by each member in respect of labour, implements and cattle.[1] As Dr. R. K. Mukerjee says : ‘Collective farming (kolhozes) of the type of Russia are not suited to India for various reasons.”

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[1] N.P.C. Report on Land Policy and Agriculture.

CHAPTER VI

SYSTEMS OF LAND TENURE

1. **Introduction.** We have already studied the distribution and nature of crops grown in India. Before we pass on to the consideration of the character of holdings and the equipment available for their exploitation it is necessary to have some idea of the legal position of the cultivator with respect to his land. This is the subject of Land Tenures. We shall find out the rights of the cultivator in the land he cultivates ? *e.g.*, rights of ownership, transfer by sale or mortgage, etc., and how far these rights are recognized by law or custom.

The importance of the study of Land Tenures is twofold: Firstly, it is necessary, from the point of view of the State, to locate the ownership of a particular piece of land, because it is the owner from whom the State has to claim the land revenue. Secondly, the repercussions of the system of land tenure are very far-reaching on the productivity of land and the general agricultural progress. For instance, an owner-cultivator will exploit his land with much greater zeal and will be much more anxious to introduce permanent improvements into it, than a tenant who has to share the fruit of his labour with a landlord. For agricultural advancement, for peace and contentment, a just and stable system of land tenure is a very necessary condition. The best system is one which, on the one hand, encourages the greatest production of wealth from the soil, and on the other, ensures the welfare of those who work on it.

2. **The Cultivator in Relation to Land.** A cultivator may stand in legal relationship to his land in any of the following capacities :—

(*i*) He may work as a tenant to the State. The ownership of land may vest in the State and the cultivator may have direct relationship with the State paying the latter a specified rent. The State can, in this case, legitimately claim as revenue from land its true economic rent. Such a system is called *State Landlordism.* This system is the aim of socialism, though it may partially exist in capitalistic societies as well.

(*ii*) The cultivator may himself possess rights of ownership in the land. These rights may be of varying degrees. The ownership may be absolute—conditional on the payment of land revenue—or it may be relative, exercised under limitations imposed by law or custom in the interests of some other parties. The right of ownership is complete for all practical purposes if the owner can sell, mortgage, or pass on land to his descendants. When a cultivator himself, along with his family, cultivates his land the system is called *Peasant Proprietorship.* A peasant proprietor pays no rent to anyone, but has to pay the land revenue claimed by the State. This system is regarded by some as the best system of land tenure. "The magic of private property," said Arthur Young, "turns sand into gold." The system breeds an independent, self-reliant and contented peasantry. It is common in the Punjab but is handicapped by too small and fragmented holdings.

(*iii*) The cultivator may be the tenant of a *private landlord.* This may take several forms, depending on the nature of the landlord's and of the tenant's rights in land. Thus (*a*) the landlord may have *full proprietary rights* paying land revenue to the State fixed by Permanent or Temporary Settlement or he (*b*) may be a mere *rent receiver* whose rent is fixed by custom or law and cannot be changed except under specified conditions.

As regards the tenant (*a*) he may be an *occupancy tenant* who cannot be ejected from his holding as long as he pays the fixed rent which cannot be increased except under given conditions. Or

(*b*) he may be a *tenant-at-will.* It means that the landlord can eject the tenant whenever he likes and can charge from him as much rent as he can squeeze out. This leads to a floating tenant population and rack-renting, especially where demand for land is acute, as in India. Or

(*c*) he may be a *sub-tenant* or the tenant of a tenant. This happens when the tenant does not himself cultivate the land but sub-lets it and lives on the difference between the rent he pays to his landlord and what he charges from his sub-tenant. The sub-tenant may again sub-let a part or the whole of the land and the process may continue indefinitely. "In one estate in Bakarganj," wrote the Bengal Banking Enquiry Committee, "there are as many as thirty intermediate tenures (between the proprietor and the cultivator) one under another. This process of *sub-infeudation,* as it is called, is mostly found in Bengal and other permanently settled areas, where the small demand of the State has left a large margin of economic rent to be divided among parasites. Such a system is the worst from the point of view of agricultural progress, and recent tenancy legislation aims at discouraging it.

When the landlord becomes a mere rent receiver, or an absentee landlord, and the tenant has no stake in the land, the cultivating population degenerates into agricultural labourers with no interest in the land they cultivate. Such a situation is full of potentialities for political upheavals and must not exist. In a good system of land tenure there are no intermediaries between the State and the actual cultivator of land.

3. Systems of Land Tenure. In the light of the above it will be easy to understand the main systems of land tenure prevailing in India. Baden Powell, one of the authorities on this subject, gives in the following table[1] the various interests that may intervene between the cultivator and the Government :—

One interest.	Two interests.	Three interests.	Four interests.	
1. The Government is the sole proprietor. i.e., *State Landlordism.*	1. The Government.	1. The Government.	1. The Government.	1. The Government.
	2. The ryot or occupant with a defined title (not a tenant) as in Madras, Bombay Berar, i e. *Ryotwari system* etc.	2. A landlord (Zamindar, talukdar, or a joint village body regarded as a whole).	2. Landlord	2. An over-lord.
		3. The actual cultivating holders, individual co-sharers, etc., i.e., *Zamindari system.*	3. Sub-proprietor or tenure holders.	3. A proprietor landlord usually a village body.
			4. The ryot or actual cultivators.	4. The actual cultivating holders, individual co-sharers, etc., i.e , *Mahalwari system.*

Leaving aside State Landlordism, which is of minor importance, there are thus three main types of Land Tenure in this country : Ryotwari, Mahalwari and Zamindari.

According to the figures of 1937-38, the area under the three main types of land tenures was distributed as follows :

Kind of Tenure.	Area in million acres	Percentage of total	Main Provinces where found
Ryotwari	183	36%	Madras, Bombay, Sind Assam & C. P
Zamindari (Permanent Settlement)	130	25%	Bengal, Bihar, Madras
Zamindari and Mahalwari (Temporary Settlement)	199	39%	C.P., Punjab, U P

We shall now discuss each of these systems separately.

4. Ryotwari Tenure. This system was first introduced in Madras in 1792. Later it was extended to Bombay. In the Madras Administration Report for 1855-56 the Ryotwari system is explained as follows : "Under the Ryotwari system every registered holder of land is recognized as its proprietor and pays direct to Government. He is at liberty to sub-let his property, or to transfer it by gift, sale or mortage. He cannot be ejected by Government so long as he pays the fixed assessment and has the option annually of increasing or diminishing his holding or of entirely abandoning it."[2] In the Punjab colonies also the system of tenure is similar. "In the great canal colonies," says Calvert, "every single grantee or urchaser holds directly and individually under the State from which has derived his rights, and each is bound by his separate agreeent to pay land revenue. This approaches to the ryotwari system Bombay and Madras, except that the areas here are larger."[1]

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[1] *Land Revenue and British India*, p. 129.

[2] Baden Powell—*Land System of British India*, Vol. I., p. 236.

Some writers think that under the ryotwari system the State is e landlord. This is for three reasons : (*a*) The State can resume e land if the cultivator does not pay the land revenue ; (*b*) the aste land belongs to the State ; (*c*) the cultivator has the option of aving the land if he does not think it worth his while.

To this may be replied as below :

(*a*) Ownership is never absolute. All property held by a citizen held conditionally on the payment of the tax due on it. The tate can resume any land if its demand on it is not paid.

(*b*) The waste land may belong to the State, but this is no rgument for the State ownership of the cultivated area. The roprierary rights have been conferred in the case of the latter nd not in the case of the former, until it is also brought under ultivation. Under the Punjab Mahalwari system, however, the roprietary rights in the common waste of the village vest in the illage proprietors collectively until it is partitioned.

(*c*) That the cultivator was given the option to leave the land f he thought it not worth the revenue assessed, also does not prove that the State regarded itself as landlord. This option was given not to preserve any proprietary right of the State, but in order to induce the cultivator to undertake the cultivation of land at a time when proprietary rights in land were not much valued. It was to assure the cultivator that he was not going to be forced to cultivate the land, that it was his free will whether to cultivate it or not.

We conclude therefore with Kale, that the so-called "occupant" of "Government land" in Bombay (and Madras) "is as much a proprietor of his land as his brother, the zamindar of Bengal, the only difference being, that in the case of the latter, the land tax is pemanently fixed, whereas in the case of the former, it is liable to periodical enhancement."[2]

The main advantage claimed for this system is that it brings the cultivator in direct relation with the Government. There are no intermediaries as are found under the Zamindari system. On account of sub-letting of land by the occupier, however, this advantage has tended to disappear though conditions are not as bad in this respect as under the Zamindari system.

The system, however, is defective as regards the method of assessment of land revenue. It leaves a great deal to the discretion of the Settlement Officer fixing the revenue charge. Much of this estimate is based on mere guess work. Another defect of the system is that the individual assessment of every holder has destroyed the collective basis of village life and has thus led to the decay of the village community.

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[1] Calvert—*Wealth and Welfare of the Punjab*. p. 179.

[2] Kale—*Indian Economics*, Vol. II, P. 781.

5 **The Mahalwari Tenure.** This system was first adopted in Agra and Oudh and was later extended to the Punjab Its principles were laid down in Regulation IX of 1833 Under the Mahalwari or Joint Village Community system land is held jointly by co sharing bodies of village communities, the members of which are treated as jointly and severally liable for the land revenue. The most typical of such tenures is found in the East Punjab. "In the old settled districts of the North, Centre and East," says Calvert, "the soil, but not always the minerals beneath it, is held in full proprietary right, subject to the payment of revenue, by the village community in common. The State is supreme landlord and retains important rights of resumption for public purposes, or for serious crime or for failure to pay the revenue, or for refusal to accept the new demand for settlement, but these are so rarely used that the full rights of the village community is seldom disturbed and the rights of the State are apt to give way to the duties and responsibilities of a great landlord." He adds a little further : "if any owner abandons his land, it would be taken over by the proprietary body. Both in law and in practice the rights of the village community are carefully preserved ; they are the owners of all the village "common" or *shamilat*, with its trees, grass, etc., and they own the site of the village buildings."[1]

Land in the joint villages may be shared in a variety of ways. Three kinds of villages may be noted :

(*i*) Ancestral villages, where the owners descend from the same ancestor. The share of each here depends on his position on the genealogical tree. In some of these villages land is not divided but is held jointly like the property of a Hindu joint family, In others division takes place according to the ancestral share system (*pattidari*) and in still others division is partial, though on the ancestral system (imperfect *pattidari*).

(*ii*) Non-ancestral villages; in which sharing takes place under the customary or *bhaichara* principles. This sharing may take place in various ways—in equal lots ; according to the number of ploughs owned , according to share in water or in wells. The land, however, is still regarded as jointly owned.

(*iii*) Villages in which existing holdings are recognised as they are and there are no definite rules for sharing.

The rules of sharing in each case are the result of how these joint villages originated. They were formed in one of the following three ways :—

(*i*) Ancestral villages were formed by the descendants of a common ancestor who may have been a founder, a grantee, a revenue farmer or a ruling chief reduced to the position of a landlord.

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[1] *Wealth and Welfare of the Punjab*, pp. 169-70.

(*ii*) The owners may belong to an immigrating or conquering class with land allotted according to their customary methods.

(*iii*) The owners may have been a group of people who colonised the place and established cultivation on the joint stock principle.

In a typical joint village the owners are themselves the cultivators—peasant proprietors. In some cases, however, land may be cultivated by tenants who pay rent to the owners either in cash or in kind (*batai* system). In some cases a comparatively large owner gives a part of his land to tenants to cultivate and works the rest himself; in others a small holder supplements his holding by getting some land on rent. The best results from the point of view of good cultivation are obtained, however, when a peasant proprietor possesses just enough land which he can himself economically cultivate with the help of his family and perhaps a few hired labourers. This is perhaps an ideal system under present conditions in India. The peasant proprietorship system dominates in the Punjab, though the holdings are often not as large as they should be.

In the case of some joint villages (*e.g.*, in Agra and Oudh) certain overlords have arisen (Talukdars) and original proprietary rights have degenerated into sub-proprietary rights or tenant rights. In the C.P. the basis of settlements is the same as in the Mahalwari system of Agra. The significant difference is that the State has recognised Malguzars as heads of villages. These were old revenue farmers under the Mahrattas, who have been given proprietary rights as a "gift" by the government. As a result the ol village community has broken up and the original intention to keep the joint character of the village has not been realised.

6. Zamindari Tenure. Under this system one or more persons own a village or villages and are responsible for the payment of revenue on the whole estate. Such villages are typical in Bengal. They also exist in Agra and Oudh where they have talukdars, but they are exceptional in the Punjab. The Malguzars of C.P. are not landlords in the Bengal sense. A variety of landlord estates are found in Bombay. In Madras also there are some big zamindars of the Bengal type.

From the point of view of the period of land revenue settlement, the Zamindari system is of two types. The Permanently Settled Estates System under which the land revenue demand is fixed in perpetuity as in Bengal and parts of Madras, and the Temporarily Settled Estates System in which land revenue charge is revised periodically, usually after 30 to 40 years.

The proprietary rights of the zamindars developed gradually. Originally lands belonged to those persons who or whose ancestors had cleared them. The rulers levied a tax on them. During times of political insecurity and foreign invasions the original proprietors were dispossessed by the conquerors and reduced to the status of tenants. In some cases these conquerors were in their turn expropriated by new waves of invaders. Many of the present landlords have descended from revenue farmers or princes reduced to the status of landlords. The proprietary rights of all these were later recognized by the Government in return for revenue payment.

As a rule the owners of these big estates do not cultivate them themselves. Tenants cultivate them. But between the tenant cultivator and the landlord who is responsible for the payment of revenue to the Government, are found, in some cases, what may be called sub-proprietors. These are called by various names :

(*i*) *Tenure-holders of Bengal.* They possess the privilege of "permanent, heritable and transferable tenure held at fixed payment." The Act of 1885 recognized all those as tenure-holders who owned one hundred bighas of land under the zamindar.

(*ii*) *Pattidars.* They are also found in Bengal. They were given permanent managing lease of a part of the estate by zamindars who found their estates too big to manage alone. Pattidars in their turn created tenants, called *dirpattidars*, who had similar privileges and shared revenue responsibilities. The Bengal Regulation of 1819 recognized such sub-proprietary rights.

(*iii*) *Malguzars* were artificially created in C.P. to fix the revenue responsibility on one person as in Upper India. This necessitated the recognition of sub-proprietary rights for the earlier proprietary landlord body.

(*iv*) In Oudh some village proprietors were able to preserve their independent management, subject to the payment of rent to talukdars. Their sub-proprietary rights have been recognized by a separate settlement which fixes the rent payable to the talukdar, who in his turn pays revenue to the Government. The sub-proprietors may themselves cultivate the lands or have tenants,

7. **Merits and Defects of Zamindari Tenure.** The Zamindari system is the product of British rule. It was introduced on the analogy of the British land system. The revenue farmers whose duty was merely to collect land revenue were given proprietary rights in the lands under their jurisdiction. This was partly due to ignorance of Indian conditions and partly for convenience of collecting revenue. The revenue was fixed in perpetuity in earlier settlements. Later the policy of permanent settlement was given up even where landed estates were recognized.

The chief interest of the East India Company was in getting maximum revenue and ensuring its collection and not in the cultivator of the soil. According to some, the Company wanted to create interests whose fortunes were bound up with the stability of the British rule in India and strengthen the alien power. More sympathetic critics attribute this policy to the British desire to create leaders of the people in the country-side.

Whatever be its original intentions, the system has not realised any of them. Combined with permanent settlement it has robbed the State of its legitimate share of the increasing net profits from land. Probably it did strengthen the foundations of alien rule, but this consideration is out of date now when that rule has already ended. From the point of view of India it was never a merit. As regards the creation of natural leaders of people, landlords as a class have been most unprogressive.

Apart from not having realised the intentions of the creators of the system, the Zamindari tenure has proved positively harmful to the interest of cultivators and the agricultural progress of the country at large. The cultivators have suffered from oppressive rack-renting and lack of security of tenure. Agriculture has suffered for want of the interest of landlords. They have been concerned with merely squeezing the maximum rent from the tiller of the soil without contributing anything to agricultural progress. The cultivators on the other hand have had no incentive to improve the land and to introduce more scientific methods of agriculture. Frequent enhancement of rent and the constant fear of ejectment have discouraged all enterprise on their part.

The unprogressiveness of the Indian Zamindar—who is invariably an absentee landlord—has been universally recognized. In the words of the Bengal Land Revenue Commission of 1940, the absentee landlord "has become an incubus on the working agricultural population, which finds no justification in the performance of any material service, so far as agricultural improvements are concerned, and fails to provide for any effective means for the development of the resources of the land."[1]

In their replies[2] to the *questionnaire* issued by the Bengal Famine Enquiry Commission (1945) the various Provincial Governments condemned the Zamindari system in similar terms. The Orissa Government wrote : 'The Zamindars in general, whether of permanently settled estates, or temporarily settled estates, not only do not introduce any improvement to get better yield or to protect the lands from floods or drought but exploit every opportunity for realization of enhanced rent or other dues from the tenants." The Bihar Government observed : "The landlord has no incentive to provide any facilities to the tenant and merely collects his rent irrespective of whether he provides them or not." The Assam Government replied : " While ryotwari tenure induces increased production, the opposite is the case in Zamindari areas. Under the Zamindari system there is a general feeling of insecurity and short of abolishing this outmoded system no other change will give full results." The Madras Board of Revenue also thought "the Zamindari system is defective." According to the Director of Agriculture, Madras, if it is replaced by the ryotwari system

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1. Bengal Land Revenue Commission Report, p. 37

2. Bengal Famine Enquiry Commission Final Report, Appendix II, pp, 449-456.

"there is no doubt that there will be an improvement in irrigation facilities, the maintenance of records of rights, the establishment of co-operative societies and extension of the activities of the Agricultural Department." The reply from the Punjab also condemned the absentee landlord. "The landlord has not taken to mechanical farming and still looks to Government for a lead."

8. Defects of Tenancy Cultivation. Landlordism involves tenancy cultivation. It is recognized that such cultivation tends to be much less efficient than cultivation by peasant proprietors. "Give a man the secure possession of a bleak rock," wrote Arthur Young, "and he will turn it into a garden ; give him a nine years' lease of a garden and he will convert it into a desert." In Denmark it was found that tenancy led to indifferent cultivation. Speakinig about tenants in the Punjab, Calvert wrote : "They generally take less care in preparing the crops, plough it less often, manure it less and use fewer implements upon it than owners. They grow less valuable crops, especially avoiding those requiring the sinking of capital in the land ; they make little or no effort of improving their fields ; they often keep a lower type of cattle ; they avoid perennials and bestow no care on trees."[1]

Where the tenant pays rent in kind, as under the *batai* or *Metayer* system, the results are still more unfavourable. The *batai* system of the Punjab, under which the customary rent is one-half of the gross produce, is not conducive to good agriculture. " When the cultivator," says Marshall, "has to give to his landlord half of the return to each dose of capital and labour that he applies to the land, it will not be to his interest to apply any dose the total return from which is less than twice enough to reward him."[2] *Batai* rents are sometimes justified on the ground that they secure automatic adjustment of rent to prices, and bring about good relations between the tenants and landlords. "But these advantages are purchased at too high a price."[3]

Tenancy, however, is not to be always condemned. " The best agriculture in the world is carried on under the tenancy system[4] (England)." This is because "an English landlord is his tenants' best friend and spends fully one-third of his rental back on the land and its needs; most Punjab landlords levy double the rent an English landlord would do and spend practically nothing back on the land."[5]

It is not, therefore, merely the system of land tenure which is the deciding factor. The character of the tenant and landlord matter much. When the tenant is easily ejected or no compensation is paid for the improvement which he might have brought about and the landlord is merely interested in receiving his rent, cultivator is bound to be indifferent. But when the tenant enjoys security of occupation, and is eligible for compensation for improvements made by him and when the landlord invests capital in the land, tenant farming can show better results than any other system since the landlord's capital resources are much greater than those of a small peasant proprietor. But if the choice is between a peasant proprietor and an absentee landlord, who is a mere parasite, the former is to be preferred.

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[1] Calvert—*Wealth and Welfare of the Punjab*, pp. 206-7.
[2] Marshall—*Principles of Economics*, 1935 ed. p. 644. [3] Calvert—op. cit. p. 195. [4] Carver—*Principles of Rural Economics*, p. 126.
[5] Calvert—op. cit. 298.

9. Reform of the Zamindari Tenure. It has been suggested by some authorities that the Zamindari system can be made to yield good results if its present defects are eliminated. For instance, in the view of the majority of the Bengal Famine Enquiry Commission the defects of the Zamindari system could be improved by making "the proprietor perform functions which are of substantially the same nature as those performed by the Revenue Department of Government in ryotwari areas and of no less public importance".[1] In his minute of Dissent, Sir Manilal Nanavati, a member of the Commission, argued that it was impossible for the proprietors to perform such functions.

10. Need for Tenancy Legislation. The tenancy problem does not arise when the owner of land himself cultivates the land. It arises only when he lets out the land to someone else. The problem emerged in permanently settled areas when the Government conferred proprietary rights in land on revenue farmers. The original holders were thus degraded to a subordinate position. In Oudh this problem arose due to political causes. After the Mutiny it was thought necessary to create Talukdars with a view to curbing the masses who had proved troublesome. In Agra early settlements were made with the so-called Zamindars without inquiry. Such Zamindars were interested in realising maximum rent and meeting the Government demand of revenue. The actual cultivator was reduced to a mere tenant-at-will and his condition deteriorated. The evils of absentee landlordism emerged and evictions and rack-renting became so common that the State had perforce to protect the tenant by legal measures.

The same problem has emerged in Ryotwari areas, too, since sub-letting has become common. In some districts in the South, the number of cultivating owners is actually less than of tenants. The tenant here is absolutely unprotected and has as poor a status as a farm-labourer. The Banking Enquiry Commissions of the Punjab, Madras and Bombay speak about this trend in the increase of tenant cultivators at the expense of owner cultivators.

It is seen that the tenant needs protection of law not only in the Zamindari areas but also in Ryotwari areas. Let us discuss the problem province-wise, since though common to all provinces, it has had different treatment in varifying conditions.

10. Permanently Settled Zamindari Areas. *Bengal.* In 1793 land revenue was fixed here at high rates (9/10 of the rent) and was to be collected by the Zamindars accredited by the Government. Although Lord Cornwallis intended to protect the tenant it was not till 1859 that the Rent Act (the first tenancy law in India) was passed in Bengal. It was amended in 1885. It gave some protection to tenants who had held the same land for 12 years. They could not be ejected without the decree of a competent Court nor could their rent be increased at intervals of less than 5 years. In 1907 the Act was further amended to guard against enhancement of rent by collusive compromises and to remove other defects brought to light by experience. In 1928 another Tenancy Act was passed according to which the tenant was given the right to transfer his holding on the payment of a fee and the landlord got the right of pre-emption. The Act further strengthened the under-royt In 1938, the Congress Ministry passed a Tenancy Act to abolish the illegal exactions and cesses charged by the landlord from the tenant and reduced the interest on arrears of rent to 6¼%. The Act was further amended in 1939 and 1940 to prèvent fraudulent practices in respect of enhancement of rent and to further protect mortgagors These laws gave some protection to the occupancy tenant and under-ryot, but the position of Bargadars (crop-sharing tenants) remained unrelieved. The Bengal Revenue Commission recommended a grant of limited occupany rights to them and a reduction of the share of the produce given by them to the landlord from half to one third.

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[1] Report, op. cit, p. 281.

Madras. In Madras the tenants' rights were protected by the Madras Estate Land Act of 1909 which replaced the Rent Recovery Act of 1865. Tenants cultivating the estate lands were given occupancy rights and could not be evicted so long as they paid prescribed rents. Rents could be enhanced only on certain clearly defined grounds. The Congress Ministry tried to confer further rights on tenants in 1939 but the Bill could not go through. In February 1947 a law was proposed to fix land rents according to those paid in 1802 and cancel all enhancements in excess of it. Ryots on permanently settled areas were to have the right of occupancy which would be heritable and transferable.

Bihar. In Bihar the Act of 1934 made the imposition of heavy exactions like *salamis* and *abwabs* illegal but they went on. In 1938 the Congress Ministry passed the Bihar Tenancy Act and gave absolute right of transfer of his holding to the tenant, fixed rates of instalment on arrears of rent at 6¼%, made *abwabs* punishable with jail and disallowed increase in rent except on grounds of improvement made by landlords. In the same year the Bihar Restoration of Bakasht Lands and Reduction of Arrears of Rents Act was passed It provided for restoration to the ryot of lands sold in years of depression on payment of arrears of rent at a reduced rate. Similar help was given to the ryot in Chhota Nagpur. These measures gave no relief whatsoever to the tenant-at-will working on a crop-sharing basis. No less than 20% of the area is cultivated by such tenants who resemble Bargadars of Bengal.

In these permanently settled areas the Gordian Knot has at last been cut by the abolition of Zamindaris. Of course it would take some years to complete payments of compensation to the Zamindar and put into effect the complete scheme but the principle has been conceded.

11. Zamindari Areas Temporarily Settled. *U.P.* The Bengal Act of 1859 was also extended to Agra, giving right of occupancy to tenants occupying their land for 12 years or more continuously. The Agra Tenancy Act of 1901 provided that a change of holding or dispossession for less than a year should not be taken as a break. To encourage long leases, it was provided only leases of 7 years or more would work towards occupancy rights. In 1926 non-occupancy tenants also obtained life tenure and in return the landlord had his rights over *sir* or *khud kasht* land extended. In 1939 the Congress Ministry passed the U.P. Tenancy Act which conferred hereditary rights on tenants enjoying occupancy rights, restricted the grant of *sir* rights and limited the area to 50 acres. It further restricted rents to the rates existing between 1895-1905, and they could not be increased for 20 years. The rate of interest on arrears was reduced to 6¼%, and ejections were disallowed, unless there was prolonged default. This legislation provides a fairly effective control against rack-renting in U. P. The principle of the abolition of Zamindari system has already been accepted in the U. P.

C. P. In the C. P. the position of the tenants was always stronger than in other provinces. The Government at the time of settlement not only fixed the land revenue to be charged but also the rent the tenant had to pay. The rights of occupancy were heritable and transferable with pre-emption in favour of the landlord. In 1939 occupancy tenants were further given the right of transferring land by mortgage and sub-letting for 5 years. The landlord had the right of pre-emption. Sub-tenants could be declared occupancy tenants, if the land was continuously sub-let to them. Rack-renting was not a substantial menace in this province.

Orissa. It is a province of temporary settled estates. When the Congress Ministry came into power in 1938, they passed the Bihar Tenancy Act giving absolute right of transfer to the ryot of his holding making *abwab* punishable with imprisonment, reducing interest on all arrears of rent to 6¼% and disallowing all increases in rent except when made on grounds of improvements made by landlords. This raised a storm of protest.

12. Ryotwari Areas. East Punjab and Bombay have the ryotwari system of land tenure. The combined Punjab had 42% land under peasant proprietors. Of the rest, 8% was held by occupancy tenants and 50% by tenants-at-will. An occupancy tenant is one who for two generations has paid neither rent nor service to the proprietor but only a share of the Government assessment. He enjoys extensive rights and can hold land so long as he pays rent fixed by the authorities. He can pass on land to his descendants on the same terms. The only difference between him and the owner is that he has to pay a smaller sum. The owner is responsible for the payment of revenue to the Government. The area with the tenants-at-will has been increasing.

As a result of the partition of India all the Hindu-Sikh population migrated to East Punjab. They had left behind much larger area in West Punjab than available in East Punjab. Consequently full quota of land could not be given to the owners. In the first instance, records of holdings could not be secured. So to avoid wasting of the standing crops left by the Muslims, a temporary allotment of land was made in East Panjab in 1947. It has now been decided to make the permanent allotment on the following basis :—

(1) To allot in full to every owner of 8 acres or less of land.

(2) To make a proportionately less allotment to every owner of more than 8 acres of land.

It may be mentioned that it is an excellent opportunity to compensate non-cultivating owners in East Punjab in bearer bonds to be paid in the future and to create economic holdings which cannot be morcelled out at the death of the present holders. Colonies of peasants may be settled on a co-operative basis and their land cultivated with the help of Government tractors.

Bombay. Tenancy has been governed in Bombay by customary law. The need for legislation was, however, felt and the Congress Ministry took the first step to pass the Bombay Tenancy Act in 1939. The Act came into force in some selected areas in 1941. The main provisions are as below :

(*a*) A new class of tenants was created which was protected from eviction provided they had held land for six years before 1938 and had personally cultivated it during this period.

(*b*) The security of tenure was subject to some conditions such as, (i) the landlord's right to cultivate the land himself or to use it for non-agricultural purposes, (ii) continued payment of rent by tenant and (iii) cultivating the land himself and not sub letting it. But if ejected the tenant was entitled to compensation for the improvements made by him

(*c*) Procedure by which reasonable rent payable by a tenant was to be determined in the absence of an agreement was laid down.

(*d*) Certain benefits were conferred on all classes of tenants. Maximum rates of rent could be fixed on some areas by Government. Remissions of land revenue by Government had to be given to the tenant. Landlords were to be punished for unlawful exactions. Tenants were entitled to the trees planted by them and compensation for them if ejected.

(*e*) No agricultural lease was to be made for less than ten years. This was to encourage tenants to improve the land.

13. Achievements of Tenancy Legislation. The main objects of tenancy legislation in India have been: (a) to put limitations on enhancement of rents; (b) to prevent arbitrary ejectments, (c) to confer occupancy rights on tenants; (d) to restrict the right of distraint for arrears of rent, while granting exemptions in the case of attachment in respect of tools, seeds etc; (e) to provide for reduction or suspension of rent on the occasion of reduction or suspension of land revenue; (f) to ensure compensation to the tenant for improvements made by him on the land; and (g) to protect the tenant from various kinds of exactions and impositions like *salamis, abwabs* etc.

It must be recognized that, generally speaking, the measures passed in the various provinces have succeeded in achieving many of these objects. These Acts have resulted in considerably curtailing the privileges of the landlord. But unfortunately the benefit has not always gone to the actual tiller of the soil. The occupancy tenant whose rights have been protected is not in many cases the actual cultivator. He has in his turn become a mere rent-receiver. The actual cultivator very often is a mere tenant-at-will working on the system of crop-sharing like the Bargadar of Bengal. Tenancy legislation does not take him into account. He is rack-rented as before and enjoys no security against arbitrary ejectments.

The Bengal Famine Enquiry Commission found that three tendencies were common in respect of tenancy situation in various provinces. Firstly, a tendency towards the increase in the number of tenants as a consequence of expropriations of previous owners. Secondly, rack-renting of tenants, especially tenants-at-will, and thirdly, an increase in absentee ownership.[1]

The review of the tenancy problem by the Bengal Famine Commission indicates that the proportion of land cultivated by non-occupancy tenants, though it varies in different parts of the country is quite substantial. As regards the terms on which the land is held by this class of tenants, "the crop-sharing system generally predominates and exists in all provinces." As regards the efficiency of this system, the Commission opines: "It seems to us *prima facie* probable that production must suffer where the tenure of the cultivator is insecure, and the incident of the rent so heavy as to leave the cultivator inadequate returns for his labour and enterprise." The majority of the Commission, however, do not think that crop-sharing on half-and-half basis is always detrimental to the interest of the tenant and efficient cultivation when soil is good, holding is large and tenure secure. But such conditions are not commonly found.

One member (Sir Manilal Nanavati) felt convinced that crop-sharing system is incompatible with efficiency of production and favoured its abolition[1]. Sir Nanavati suggested radical reform of the whole land system, without which our rural problem is incapable of solution. He believed in the abolition of the Zamindari system altogether—a problem we have already discussed. We are in complete agreement with Sir Nanavati in this matter.

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[1] For details read the answers given by various Provincial Governments to the *questionnaire* issued by the Commission. Appendix II, pp. 445-448 of the Final Report.

He further thinks : "The Zamindari institution is too obsolete to fit into any government organization. Any attempt to enforce such a measure would not only fail to benefit the people but would meet with friction and disharmony at every step and be a perpetual source of embarrassment to Government".[2]

According to Sir Nanavati, (1) it is impossible to convert the permanently-settled estates within their existing frame-work, into an efficient department of land revenue as in the Ryotwari areas and force them to perform the same functions by legislation. (2) The estate owner will not agree to the expenditure incurred for the resettling of the estate on the new basis for which there will be no return to him whatsoever. (3) Under modern conditions when the functions of the State are fast expanding it is unjustifiable for it to hand over the administration of the most pivotal department of the State (*viz.*, the Land Revenue Department) with all its ramifications to a private agency. (4) The new scheme of land reform, rehabilitation and social reform intended for rural areas will not be adequately carried out under the aegis of a private agency. (5) The kisans for whose benefit apparently this scheme is adumbrated will not give their willing co-operation to the Zamindars bearing in mind the past history of their relations. (6) Finally in no part of the world has such an experiment been sucessfully tried.[3]

Sir Nanavati therefore favoured the abolition of the Zamindari system not only in the permanently settled areas but also in the temporarily settled areas and substitution in its place of the Ryotwari system, thus creating peasant proprietorships in place of tenancies. The Sub-Committee of the N. P. C. in its report on land policy suggest that the ownership in all forms of natural wealth must belong to and vest absolutely in the people of India collectively.... ..No intermediary parasites—Zamindars, Taluqdars, malguzars, etc.—should be recognized. All rights or privileges granted to any of these classes should be bought out. Steps must forthwith be taken to consolidate all such forms of wealth into such standard units as can be most economically operated with a view to increase the aggregate net return and to minimize the amount of human effort involved in cultivating these. No subdivision of agricultural land by any incident of inheritance, mortgaging, alienation or device of share-holding corporation, should be permitted."[1]

14. Creation of Peasant-Proprietorships. The principle of the abolition of Zamindari tenure in areas where the permanent land revenue settlement was established, has been accepted by the new constitution of India as well as by the Provincial Governments concerned. This involves the purchase of all proprietary rights by the State from the present landlords and conferring them on the actual cultivators of land, which means the creation of the system of Peasant Proprietorship. This system abolishes all parasitical intermediaries between the cultivator and the State and thus ensures full return to the agriculturist for his labour and investments. It creates a sturdy self-reliant and independent class of people who are the back-bone of the State. Production is stimulated and the agriculturist and his family put forth their best. There is thus greater scope for raising the living standards of the rural people.

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[1] See Minute of Dissent by Sir Nanavati. Report, pp. 348-375.

[2] N.P.C. Report on Land, Policy and Agriculture, pp. 48-49.

[3] Minute of Dissent by Sir M. Nanavati, pp. 366—367.

But the peasant proprietorship has its weakness. Its dangers are specially great in a country like India in which the laws of inheritance envisage equal division of landed property among the heirs. This leads to small and fragmentary holdings which are uneconomical to work. The maximum area of a peasant holding should therefore be fixed and the working unit of land kept at an economic size. Further, the small holder should be provided with the equipment to carry on progressive agriculture.

Recent land reforms in Europe have also been in the direction of creating peasant proprietorships. Even in Great Britain, the traditional home of landlordism and tenancy cultivation, the proportion of land worked by the owners rose from 10·6 per cent in 1913 to 36 per cent in 1927. In France percentage of owner-cultivated area rose from 53% in 1892 to 60% in 1929. Many European countries now have peasant proprietorship as the dominant system of cultivation. Thus the percentage of the area cultivated directly by owners is 89% in Germany, 85% in Hungary, 80% in Switzerland, 90% in Czechoslovakia, 89% in Latvia, 72% in Estonia, 57% in Italy and 51% in the Netherlands.

The State in these countries has taken active steps to create and maintain economic peasant holdings. By buying up big estates and setting up small cultivators on them, by putting restrictions on the transfer of land, by creating non-attachable farm properties, by prohibiting division of properties on succession and by reclaiming waste lands and releasing them for cultivators.[1]

Dr. R. K. Mukerjee and Prof. Kale recommend the following measures of land policy in India[2] :—

(1) All agricultural land should belong to the State, and should be divided into economic holdings, whose maximum area in different regions should be fixed after systematic enquiry. Under-sized holdings should be regrouped and amalgamated.

(2) Economic holdings thus constituted should be protected against further sub-division by law. The system of preferred heir

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1. Nanavati and Anjaria—*Indian Rural Problem*, p. 324.
2. N. P. C. Report. op. cit. pp. 95-98.

prevalent in Germany may be considered in this connection. All sub-infeudation should be prohibited and sub-letting disallowed beyond two agricultural seasons.

(3) In newly reclaimed areas acquired by the State for settling agricultural labourers, however, no new vested interests should be created and collective family cultivation system should be adopted in accordance with modern scientific methods.

(4) Collective farms are unsuitable in India but co-operative organisations of the multi-purpose type deserve encouragement.

15. Difficulties of Abolishing Zamindari. The Zamindari system is going. So far as India is concerned, there are two difficulties in the way. The financial difficulty is the most formidable. The Land Revenue Commission, Bengal, estimated that on the basis of compensation at 15 times the net profit, the total compensation payable to holders of proprietary interests would come up to Rs. 137 crores. If raised by loan at 4% this debt would take 60 years to be discharged. Similar amounts will have to be paid by other provinces where the Zamindari system prevails. The Bengal Famine Commission therefore did not think that the abolition of the system could be carried out within a relatively short time without incurring financial commitments which might seriously restrict the resources of public borrowing available for other urgent schemes of development.

Sir Manilal Nanavati in his Minute of Dissent did not agree with this view of the majority. According to him the financial difficulty was not insuperable. In the first place, money was not to be paid all at once but over a period of from 20 to 30 years; secondly, only a small portion (to pay off small landlords) of required funds would have to be borrowed. Most of the money would be available to the Government from the acquisition of proprietary rights. According to his scheme, payments would be made by annuities out of the additional revenue from the resources acquired by the Government.

Then there is the administrative aspect, especially in the case of permanently settled estates. The revision of record of rights is an essential preliminary. The settlement operations necessary might take some years but these difficulties are not insuperable and can be surmounted once the scheme is undertaken.

16. Abolition of Zamindari. The question of abolition of the permanent settlement and the Zamindari system has been exercising the mind of the people in India for a very long time. An expert commission (1938-40) reported on it in Bengal and recommended that the State should get rid of the landlords. To Bihar belongs the honour among Indian Provinces of being the first to take practical steps towards its abolition. As regards compensation, the maximum rate of 20 times the revenue assessment is applicable to incomes up to Rs. 500 per annum, while the minimum rate of three times becomes applicable to incomes of over Rs. 1 lakh. The compensation is to be paid over a period of 40 years. There are about 127 lakh zamindars in the province and their total annual income is Rs. 16 crores. The Government would thus be owner of the land and be in direct relation with the cultivating tenant as in the Ryotwari areas. The changes planned to improve the methods of cultivation will follow in course of time.

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*N.P.C. Report on Land Policy and Agriculture.

In Bengal, too, Land Acquisition and Tenancy Bill has been introduced in the Provincial Legislative Assembly. It seeks to purchase rights only in agricultural land. A minimum period of 10 years is estimated to be required to put the scheme into practice. The important provisions relate to the working out of (a) the rate and method of payment of compensation, (b) arrears of rent and indebtedness of landlords and (c) tenancy regulation after State acquisition including restrictions on transferability, consolidation of holdings and prohibition of *Booga* system of tenancy under which the tenant is groaning.

Compensation is proposed to be payable on the basis of net income which will be determined by deducting due revenues, expense of maintenance of irrigation works and fair collection charges. The rate of compensation recommended by the Floud Commission varies between 8 to 15 times the net income and strikes a rough average of the time. Charitable trust properties will receive perpetual amenities equal to their net incomes. The Bill provides for scaling down of the debts of smaller zamindars and makes provision for collection of full arrears of rent due to them.

The Bill also provides that there shall be only one class of ryot with rights of occupancy under the Government as the sole landlord. Sub-letting is disallowed and sub-division restricted. The maximum size of a holding is also fixed at 60 bighas or 5 bighas for each member of a family, whichever is greater. Even though the ryot gets only rights of occupancy, yet for all practical purposes he will be a peasant proprietor.

U. P. and Orissa have also accepted the principle of abolition. There is only a difference of opinion in regard to the scale and nature of compensation and its calculation. This is a mere matter of detail. The net result will be the disappearance of rack-renting at the hand of an obsolete, unwanted class of parasites. The benefit will be substantial if and when handicaps discussed above are remedied and improvements taken in hand.

In Madras, too, the Bill for the abolition of permanently settled estates has been passed by the Legislative Council. This will bring the entire province under the Ryotwari system. But it does not mean that the cultivator and his land are going to improve all of a sudden. As we have said above, certain reforms are necessary before this improvement can take place. For one thing the land revenue should be determined on a rational and scientific basis. Secondly, the cultivating ryot must have an economic holding, the morcelment of which should be prohibited by law. This will need a radical change in the laws of succession. It may also be suggested that as far as possible cultivation should be carried on on a co-operative basis.

The bills for abolition in Bihar and Madras having been passed by their respective legislatures have been sent up for the Governor-General's signature and confirmation which have not yet been given due to considerations of inflation and other reasons.

CHAPTER VII

THE UNIT OF CULTIVATION

1. Introduction. There are three essentials of progressive agriculture : (*a*) an economic unit of cultivation, (*b*) proper equipment and (c) incentive for effort. We have already discussed conditions of tenure which would induce the peasant to put his best efforts in cultivation. We saw that this was possible only if the plasant was certain of reaping the fruit of his labour. It was thus necessary to abolish all superior interests which appropriated the major portion of the profits of cultivation. Productivity is also determined by the character of the cultivation and the equipment in the way of tools, manures, water, etc., available to him. We shall consider this problem later. The unit of cultivation is of no less importance. Its size determines the character of equipment that can be usefully employed by the cultivator, Even proprietary rights in land will not stimulate best efforts if the holding is of an uneconomic size.

2. The Holding. Holdings map be viewed from the point of view of ownership and that of cultivation. The ownership-holding may be quite large in size but it may be distributed among a number of cultivators, thus making the unit of cultivation small. Conversely, a number of owners' holdings, each small in size, may be cultivated by one tenant, thus making the cultivator's holding large. Sometimes the owner cultivates his own holding. He may, of course, let out a portion of holding or may take on rent some land from adjoining owners. From the point of view of agricultural efficiency, it is not the size of the ownership-holding, but that of the cultivation holding, that matters most. It is seen that an average cultivator's holding in India is small in size and is split up into fragments scattered all over the village area.

3. An Economic Holding. It is not easy to define an economic holding. Its size would vary with circumstances but it should be such as to provide full continuous employment to a family and a reasonable income to live in comfort. The size mainly depends on the following :—

(*a*) *The methods of cultivation.* If mechanized methods are used, the size will be 200 acres or more. With primitive methods about 25 acres would be economic.

(*b*) *Crops raised.* For the production of wheat the size of the holding has to be large to give best results. For vegetable and fruit production the size required will be comparatively small.

(*c*) *The productivity of the soil.* When the soil is good a small area may be adequate to support a family in comfort. When the soil is inferior or lacks proper irrigational facilities, a larger area would be necessary. For instance, 6 acres in the Jullundur district of the Punjab may give a higher standard of living to a family of five than, say, 15 acres in the Hissar district.

(*d*) *The organization of agriculture.* For instance, if farming is carried on co operatively by a number of families, a large-sized holding will produce best results, while if it is carried on individually, a small size may be good enough. This is partly because under co-operative farming scientific methods can be profitably applied.

The size of a family and the character of its equipment are important factors in determining the size of an economic holding. Such a holding varies in different parts of India according to the character of the soil, rainfall and other facilities for irrigation and marketing.

Dr. H. Mann defines an economic holding as one which will "provide an average family with the minimum standard of life considered satisfactory." He puts the size of such a holding in a Deccan village at 20 acres. According to Keating, an economic holding should allow a man a chance of producing sufficient to support himself and his family in reasonable comfort after paying his necessary expenses. He puts such a holding in the Deccan at 40 to 50 acres of fair land in one block with at least one good irrigation well. According to Sir Vijayaraghavacharya, "from 4 to 6 acres is the minimum subsistence family holding." Of course, the size, he agrees, will differ with differences in soil, productivity, water supply, crop-rotation and agricultural practice.

4. The Size of an Indian Owner's Holding. Whatever definition of an economic holding may be adopted, the large majority of the holdings in India, both cultivation and proprietary, are not of an economic size[1]. Mr. H. Calvert conducted an inquiry into the size and distribution of owners' holdings in the Punjab and found that—

(*i*) About 17·9 per cent of the owners' holdings are less than one acre and the area thus owned is only one per cent of the whole.

(*ii*) About 40·4 per cent of the owners own from one to less than five acres, the land involved being 11 per cent of the whole.

(*iii*) About 26·2 per cent of the owners possess from five to less than 15 acres, the land being 26·6 per cent of the whole.

(*iv*) About 11·8 per cent own from 15 to less than 50 acres, the land being 35·6 per cent of the whole.

(*v*) About 3·7 per cent possess 50 and more acres and own, at a rather rough estimate, 25·7 per cent of the land.[2]

"The average cultivated area per owner in the Punjab is between seven and eight acres. A more recent enquiry carried out by the Board of Economic Enquiry, Punjab, in 1939, reveals a further deterioration in the size of the holding. According to Calvert, 58·3% of the owners cultivated less than 5 acres of land. According to the second enquiry, this percentage had risen to 63·7% while the land involved remained about the same. If 15 acres are an economic holding, as some people think, then 88% of the owners had less than this size in 1939.

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[1] "The average area held by such right holder (in India) is small and there are a very large number of such holdings under two or three acres." Report of Agricultural Commission, p. 143.

[2] Calvert—op. cit. pp. 172-173.

The holdings in other provinces are still smaller. In Bengal 46 per cent of the farmers have holdings below two acres each, while another 21 per cent have two to four acres each. The average size varies from two to three acres in Madras to half an acre in Bihar and Orissa. In the United Provinces it is two and a half and in Assam it is barely three.

5. **Size of Cultivator's Holding.** As already noted, the size of cultivation is more significant than the size of ownership Many of the holdings below one acre in the Punjab, for instance, are cultivated along with other areas. On the other hand, most of the large holdings are parcelled out by the owners to tenants, each cultivating a comparatively small area.

Mr. Calvert's enquiry into the size and distribution of cultivators' holdings in the Punjab found that—

22 per cent of cultivators cultivated one acre or less each ; a further 33 per cent of cultivators cultivated from 1 to 5 acres each ; a further 31·9 per cent of cultivators cultivated from 5 to 15 acres each ; a further 12 6 per cent of cultivators cultivated from 15 to 50 acres each ; and only one per cent cultivated over 50 acres each.

Comparing the results of his two inquiries Mr. Calvert concludes : "There appears to be about 500,000 ownerless cultivators, a real tenant class ; the number with one acre or less is disconcertingly great, numerous small owners in the 1 to 5-acre group have managed to get enough land on rent to take them out of this group into one higher up ; once the 15-acre holding is passed the number dwindles sharply. As the size of a holding considered cultivable by one yoke of oxen is about 14 acres, it is clear that very many have failed to increase their holding to this size, so that there is a real demand for land on rent—a fact which accounts for the high rents and the ability of the landlord to exact a fifty per cent share instead of a reasonable cash rent[1]. Thus the majorty of the holdings in the Punjab are below the economic level. The size of holdings in the East Punjab is smaller than it was for undivided Punjab. Canal- irrigated lands in West Punjab where the holdings were comparatively larger have gone to Pakistan. Besides, the total land evacuated by non Muslims in West Punjab was 5·7 million against only 4·5 million acres evacuated by Muslims in the East Punjab. This is another reason for the smallness of the size of holdings in East Punjab.

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[1] Calvert— op. cit., p. 176.

The table below gives the number of cultivated acres per farmer and the average size of holdings in 1931. The table reflects conditions among permanent right holders. The actual position is worse because many of the smallest cultivators cultivate extremely tiny fields.

Province		Acres cultivated per cultivator	Average size of holding in acres
Bombay	...	16·8	11·7
C. P.	...	20.0	8·5
Punjab	...	8·8	7·2
Madras	...	5·9	4·5
Bengal	...	3·9	2·4
Assam	...	3·4	About 2·0
U. P.	...	3·3	6·0
Bihar, Orissa	...	2·9	Between 4 and 5

Compare with these figures the averages per cultivator relating to some other countries :—

Belgium	..	...	5·7
France	...	...	15·5
Germany	..	...	19·25
England	...	...	26·95
U. S. A.	..	...	140·0

In Japan and Egypt the average holding is about 2½ acres. In Japan, Belgium and Denmark small holdings are accompanied by highly intensive cultivation. In India holdings are small, but intensive methods are rarely used Only in Bengal, Assam and the U.P where rice is cultivated, intensive methods are used. It is possible here for the cultivator to support a family on his tiny holding.

6. Fragmentation or Morcellement of Holdings. Sub-division of holdings means the small size of the total area held or cultivated. Fragmentation implies the scattered character of this area into small pieces all over the village area. Though, usually fragmentation of ownership also means fragmentation of cultivation, this need not be always the case A cultivator may take on rent a block of land consisting of several plots belonging to different owners. On the other hand, a consolidated owner's holding may be let on rent to different tenants in fragmented pieces. From the economic point of view, consolidation of cultivation is more important than consolidation of ownership unless, however, the two coincide.

Fragmentation is normally caused at the time of sub-division of property among several owners each of whom wants to get a portion of each of the ancestral pieces Fragmentation of cultivation is, therefore, the result of the fragmentation of ownership. A few examples will give some idea of the extent of fragmentation in India In the village of Pimpla Saudagar, Dr Mann found that 156 owners owned between them 729 plots, of which 463 were less than 1 acre each and 211 less than a quarter of an acre. In Ratnagiri, the size of individual plots is sometimes as small as

0·00625 of an acre. In the Punjab, too, some fields have been found which were a mile long and a few yards wide, and others so small that it was not possible to cultivate them. As in Bairampore, Punjab, Mr. Bhalla found that 34·4 per cent of the cultivators had over 25 fragments each. In Pimpla Saudagar 62 per cent of the plots were found to be less than one acre in area and in Jategaon there were 31 per cent of such plots.[1]

7. Causes of Sub-Division and Fragmentation. The main causes which have led to the small size of holding and of individual plots are given below.

(*i*) *Growth of Population.* As population grows, land gets divided among larger and larger numbers of people and the size of an average holding decreases.

(*ii*) *Laws of Inheritance.* Both Hindu and Muslim laws of inheritance favour partition of landed property amongst the heirs. At the time of division, the heirs demand a piece from each quality of land. Thus with sub-division of holdings comes fragmentation.

(*iii*) *Decay of handicrafts* due to competition from machine-made goods, has increased pressure on land, especially when there has been no corresponding industrial development to take away the surplus population from land.

(*iv*) *Attachment to landed property.* In India there is great sentiment for land. It is a source of prestige and the landowner does not sell out his land easily. Everyone sticks to his little share of property which causes further sub-divsion and fragmentation.

(*v*) The advent of the British rule, by establishing peace and security and definite rights in land, has also encouraged money-lenders and other middle class people to invest in land.

(*vi*) Agricultural indebtedness has also acted in the same direction. Frequent divisions of landed property have been caused by the chronic state of indebtedness of the peasantry.

(*vii*) Breakdown of the joint family system and the growth of the spirit of individualism have made joint farming an exception and partition the rule.

The main cause, however, is the increase in population unaccompanied by adequate expansion of alternative avenues of employment.

8. Evils of Sub-Division and Fragmentation. The sub-division of holdings is sometimes justified on the ground that it gives equal chances to all the heirs of landed property and prevents the creation of a class of landless labourer and thus conduces to economic and social stability. Similarly, fragmentation of property is defended on the ground that it insures the cultivator against vagaries of seasons by enabling him to sow his crops on different soils. Moreover, it makes possible a more elaborate rotation of crops. But the evils of small and fragmentary holdings are much greater than any advantage that may accrue.

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[1] Report of the Royal Commission on Agriculture, pp. 134-135.

Sub-division and fragmentation are wasteful and are a serious obstacle in the way of agricultural improvement.

In the first place, under such conditions even the poor equipment possessed by the cultivator cannot be used to the best advantage.

Secondly, it makes improvements like wells, labour-saving devices, introduction of more valuable crops and large-scale production an impossibility.

Thirdly, the standing charges being the same on a small farm, the cost of production per unit of produce is higher than on a large farm. For instance, fencing charges per acre on a small and fragmented holding are higher.

Fourthly, initiative is discouraged due to difficulties of protection of crops against man and animal. Independent well-digging is not possible.

Fifthly, much area is wasted in hedges and paths.

Apart from these, fragmentation has some special evils. There is considerable waste of time, energy, produce and manure when the plots lie scattered about over a big area. Some plots are so small that it is not worth while cultivating them and thus there is waste of land. Moreover disputes about boundaries, rights of passage for man, beast and water are a common feature of village life and cause waste of time, money and energy of the cultivator.

9. Proposed Remedies. Various remedies have been proposed to meet the evils of sub-division and fragmentation. There are remedies which try to create economic holdings. Then there are suggestions for prevention of further sub-division and fragmentation of holdings. These remedies are detailed below.

(*i*) *Creation of Economic Holdings.* This may be done either (*a*) by socialization of all land and then its cultivation on the principles of collective farming as in the U.S.S.R. (to be explained later in this chapter).

(*b*) Individual landed property may be pooled for the purpose of cultivation on the co-operative farming or joint management principle while keeping private property in land intact. We shall discuss these methods also presently.

(*c*) In Italy money is advanced by the State and old mortgages taken over to promote economic holdings. Since the number of uneconomic holdings is very large and the sentiment in favour of ownership strong in India, this method will prove very expensive.

(*ii*) *Preservation of Economic Holdings.* A further remedy is not to allow holdings that are economic to become sub-divided into uneconomic ones. This may be done in several ways.

(*a*) By changing the laws of inheritance and substituting the law of primogeniture by which landed property will pass on to the eldest son. This may create difficulties as vocations will have to be found for the younger sons, which is difficult. This might lead to the creation of a large landless class. Moreover, Hindu and Muslim religious sentiment will be a big hurdle in the way of this change.

(b) By making a holding indivisible after it has reached a certain size to preserve its economic character (Impartible Holdings). Egypt has passed the Five Fedden Laws to do this. "Although the land is nominally divided amongst the heirs, it is actually left in the hands of one to cultivate on behalf of the whole number or may be handed to trustees to manage for all."[1] Mr. Keatinge suggested giving to the right-holder of an economic holding, power to register it as such in his name, after which the holding became impartible. In fact, a Bill was drafted in Madras, which was to be a permissive measure, to put this scheme into effect A similar Bill was introduced in the Bombay Legislature which aimed at stopping further sub-division of holdings. But these measures met with bitter criticism and opposition and could not pass the Legislatures.

(c) The East Punjab Holdings Consolidation and Fragmentation Bill was passed in 1948 to enforce compulsory consolidation of holdings and to avoid fragmentation. This work was being done by the Revenue and Co-operative Departments but it was too slow and lengthy. The Act of 1936 did not provide for any action against fragmentation of holdings due to partition among co-sharers. "In the Punjab canal colonies, sub-division was checked by restrictions on alienations, and in the case of certain grants by the limitation of succession to a single heir ; so far as right-holders are concerned, the policy has proved successful, but it has not served to prevent joint cultivation or even sub-division of cultivation." There is no doubt, however, that restrictions on alienation have the effect of preventing sub-division.

Thus it appears that prevention of sub-division and creation of economic holdings in India are fraught with many difficulties.

The evil of fragmentation, however, can be met.

10. Consolidation of Holdings. "The only measure that appears to promise relief," wrote the Royal Commission on Agriculture, "from the evils that arise from fragmentation of right-holders' holdings is the process which is generally known as the consolidation of holdings, though it is in reality the substitution—by exchange of land—of a compact block for a number of scattered fragments. By this process, all the land of one holder may be formed into one plot only, or in a few plots of different kinds of soil"[2].

The work of consolidation was started first in the Punjab as far back as 1920 21. Initially consolidation was effected on an entirely

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1. Agricultural Commission Report, p. 138.
2. Royal Commission on Agriculture Report, p. 136.

voluntary basis through co operative societies. By 1943, there were 1,807 such societies. The total area consolidated by them was 1·45 million acres out of the total cultivated area of thirty million acres. The Consolidation of Holdings Act, 1936, however, allowed compulsion to be used if a stubborn minority stood in the way. Under this Act work has been carried out in 376 villages and 0·31 million acres have been consolidated. The work is in progress in 86 more villages. The main difficulty is to get the consent of ⅔ landholders which is necessary before compulsion can be applied.

Consolidation of holdings has brought many advantages. Arable area has increased and so has its productivity. There is greater desire for improvement among the owners. Occasions for litigation have decreased. "It may, however, be pointed out that in the case of the Punjab, consolidation is facilitated by comparative homogeneity of soil and by simplicity of tenure.[1] According to the Floud Commission, two causes have favoured consolidation in the Punjab : (*i*) crops depend entirely on irrigation so that the peasant whose plots are consolidated is in a position to sink a well, and (*ii*) there is very little sub-infeudation in the Punjab.

The lead of the Punjab was followed by other provinces, notably U. P , C. P. and Berar, and among the States, Baroda. In 1939-40 there were 182 Co-operative Consolidation Societies in the United Provinces and they had consolidated by that time 77,672 pucca bighas of land. A Consolidation of Holdings Act was passed in 1939 under which consolidation is being carried on as in the Punjab, side by side with the work done by co-operative societies. The main difficulty is the dearth of trained officers and staff. In the C. P. consolidation has been in progress since 1926. The work has been completed in 2,476 villages in the three districts of the Chhattisgarh division under the Central Provinces Consolidation of Holdings Act of 1928. Under this Act compulsions can be exercised on the rest if one half of the right-holders owning not less than ⅓ of the occupied village area declare themselves in favour of consolidation. In Madras, in 1939-40 there were only 22 societies for consolidation, The Government of that Province has abandoned the experiment on the ground that so long as sub-division is not checked consolidation is bound to fail. In the Baroda State, useful work has been done by consolidation societies whose number in 1939-40 was 79.

The Bombay Small Holdings Bill was introduced in the Legislative Council in 1927. Its object was to stop further sub-division of holdings, to create "profitable holdings" and to promote consolidation. On account of strong opposition in the Council and outside the Bill had to be indefinitely postponed. No practical scheme of consolidation has been evolved in Bengal, Assam, Bihar and Orissa. The Floud Commission was of the view that although desirable, consolidation would involve great practical difficulties.

" The State action, " wrote the Royal Commission on Agriculture "in favour of consolidation, where it is introduced under a per missive Act, should be taken in a guarded manner. Special areas should be selected for notification before any measure of compulsion is enforced. The State should undertake propaganda work, explore the actual situation and should also bear the cost in early stages."[1]

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[1] Ibid, p. 139.

Perhaps this policy of "caution" was justified in earlier stages when most people were not familiar with the advantages of consolidation. We feel that time has come now to make consolidation of holdings compulsory in every village. If, however, the zamindari system is abolished, and land is given to the actual tiller and it is laid down by law that holdings should not be divided after they have reached a certain limit (10 acres is very reasonable), need for such palliatives as consolidation disappears.

11. Collective Farming. Consolidation of holdings at its best is only a palliative. Even if a small holding is consolidated into one block and is prevented from fragmentation again, it still remains a small holding and if its size is below the economic level there will still be considerable waste of labour and capital on it. One solution —rather a revolutionary solution—is to abolish private ownership in land altogether. Let the land be owned by the State or the community and be cultivated in the form of large units with the help of the latest scientific implements. The workers will get a return in the form of wages for the work done on such collective farms.

Collective farming requires too revolutionary a change in the social organisation of the country to be a practical proposition in the near future. Both religion and convention recognize private property in land and the desire for possession of land is too deep-seated in the peasant mind to be easily rooted out. Besides socialisation of land will be resented unless all other forms of capital are also treated in the same way. Hence community-farming will not suit the country under present conditions.

12. Co-operative Farming. Co-operative farming is a compromise between collective farming on the one hand and peasant proprietorship on the other. It gives all the advantages of large-scale farming without abolishing private property in land, The proprietors are induced to form co-operative farming societies. The land of the village is pooled for purposes of cultivation but individual rights are maintained. Large-State operations thus become possible and scientific methods of agriculture can be applied and the tractor and the combined harvester can be used with advantage.

Payment is made according to work and separate remuneration is given for the ownership rights in land.

The co-operative principle has been tried in India piecemeal *i. e.*, the problems of credit, marketing, purchase of seed, implements, etc., separately. The results, with very few exceptions, have not been very encouraging. The main trouble has been the poverty,

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1. Royal Commission Report, p. 139.

ignorance and illiteracy of the members. Co-operative farming requires much greater capacity for self help and mutual trust. Moreover, it needs the right kind of leadership from among the people which does not exist at present.

Individual farming is organised on co-operative basis in Palestine. Machine farming is going on in these farms. An Indian delegation visited Palestine to study this system in 1947 and submitted a report. The method can be adapted to suit our needs.

The National Government of India has recently undertaken vast multi-purpose river projects which will bring considerable areas under the plough (6·2 million acres in 5 years to start with). Co-operative colonies are being created, State-tractors are digging up the land and the work is progressing satisfactorily.

13. Joint Village Management. Another solution recently suggested is to create jointly managed villages. To start with, a few villages in every district should be brought under joint management for purposes of experiment and demonstration.

The scheme may be described in the words of the writer who has suggested it. "The words 'joint management' connote a system in which the claims of the ownership are respected, but owners pool their land for the purpose of management. The underlying idea maybe explained by means of a simple example. Let us suppose that we have an area of 60 acres which belongs to ten owners, who own respectively two, four, six, eight or more acres of land. Let us say that out of these ten owners, four do not cultivate themselves, maybe because two of them are employed in some kind of service, one is in a business, and one is too old to work. Under the system which prevails at present, those who do not work their areas let their land to tenants-at-will Since we know this to be an inefficient practice, let us suppose thet the area of 60 acres is managed jointly by all the ten owners but is actually worked by the six owners who are available for work in the village.

"Now income from land divides into two parts—income due to work and income due to ownership. This is the distinction between what the tenants-at-will and the owner get from the same piece of land. The division may be in kind or it may take the form of cash. It is as a rule customary in character but it may some times be determined by competition. For the sake of illustration, it may be assumed that the customary division of produce between the tenant-at-will and the owner is half and half. The six men who cultivate the area of 60 acres are entitled to half its produce in return for their labour. These six, along with the remaining four, are entitled to the other half of the produce by virtue of their ownership. If, for convenience, this area of 60 acres is divided into six units of ten acres each, then every worker will keep half the produce of his piece of land and will deliver the rest into a common pool. Out of this pool (joint *batai*) the farm will pay its land revenue, carry out such common investment as may be necessary and meet other essential charges. The balance will be distributed as ownership dividend among all the ten owners according to the value of the area contributed by each to the farm as a whole."[1]

Thus while large-scale farming with all its advantages will be possible ownership will remain. "Ownership, however, will not now imply permanent physical possession over or association with a specific piece of land, nor will it imply the right to let that piece of land to a tenant-at-will in return for rent......joint management will retain the principle of equal inheritance. Sons will not share particular bits of land ; they will share equally the ownership dividend due to their total holding and each of them will have the right to work in the jointly managed village."[2]

The managing body, whose functions, among others, will be to allot work units and distribute dividends, will consist of representatives of all the families of the village. It is clear that joint management can be carried on by a co-operative society formed for the purpose or by a representative body of the villagers.

One very important problem that will arise under all systems of scientific agriculture will be that of surplus labour. This surplus may be in the neighbourhood of from 15 to 20 million people. Employment shall have to be found for these people.

In the distribution of work of cultivation in work units the first choice, at any rate in earlier stages, will be given to those now actually engaged in cultivation. More efficient cultivating classes will be preferred. Later, as agricultural operations are mechanised this distinction will disappear. Of the rest, some people will be employed on wage-work in fruit gardens in the dairy, on the vegetable farm and other co-operative enterprises which will be created in the village to meet the needs of the villagers and even for export if possible. Some people will be engaged in the existing skilled occupations as those of shoe-maker, carpenter, black-smith or potter and new skilled occupations and industries which may develop in the future. The rest will have to seek employment outside the village, whether in industries or in different forms of service.

Thus in order to secure full employment our plans over the whole range of economic life shall have to be properly co-ordinated. Before such a system can be introduced all intermediaries between the cultivator and the State, landlord and other rent-receiving agents, will have to be eliminated or bought off. Joint village management on a co-operative basis offers a good solution for the various problems facing rural India today. It does not radically depart from the traditional idea of ownership, at the same time it offers scope for scientific agriculture.

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1. Tarlok Singh—*Poverty and Social Change*, pp. 57-58

2. Ibid, pp. 65-66.

CHAPTER VIII

THE AGRICULTURIST AND HIS EQUIPMENT

1. Introduction. Agricultural efficiency depends as much upon the social, economic and legal status of the cultivator as upon type of implements used, the quality of the soil and the size of the holding. We have already dealt with the legal position of the cultivator with respect to the land he cultivates and also with the problems arising out of the small size of the holding. In this chapter we shall discuss the agriculturist and the equipment at his disposal such as the type of soil, the implements, seed, manure, cattle, etc. Irrigation facilities at his command are also a part of his equipment and will be dealt with in the next chapter.

2. The Agriculturist. What of the agriculturist himself, the man behind the plough ? Seemingly contradictory views have been expressed by authorities about his personal equipment. Dr. Voelcker in his able report on agricultural practice in India admired "the careful husbandry combined with hard labour, perseverance and fertility of resources of the Indian agriculturist " The Agricultural Commission also admitted that "in the conditions in which the ordinary cultivator works agricultural experts have found it no easy matter to suggest improvements "[1] These views seem to suggest that it is the environment rather than the cultivator who is at fault. On the other hand, Calvert quotes an Irish writer : "The wealth of a nation lies not in the material resources at its command, but in the energy and initiative and moral fitness of its people."[2] The implication is that Indian people are poor because they lack these qualities.

The truth of the matter is that where circumstances are favourable the Indian peasant shows considerable resourcefulness. But where rainfall is precarious or system of land tenure is oppressive, these qualities get undermined. Generally, however, our rural masses are far below the standard of physical and mental development in advanced countries. The causes of this backwardness are partly historical and political, partly social and partly climatic. Each set of causes is inextricably mingled with the others. The emphasis laid on a particular cause is determined mostly by the political creed of the writer concerned.

Whatever the causes that have brought about the present state of affairs, no one can deny the facts as they are. There is no denying that the Indian cultivator is inferior in health and energy to his counterpart, for instance, in Great Britain and America. He is subject to a host of endemic and epidemic diseases. These not only cause a high rate of mortality, but also undermine the physical efficiency of those who survive the attack. People chronically subject to disease, moreover become lethargic, listless and apathetic. The solution of this problem calls for both preventive and curative measures. The Public Health and Medical Departments are doing some work in this connection, but most of their benefits are showered upon the urban areas.

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[1] Report, p. 14.

[2] Calvert, op. cit., p. 47.

In the second place, the wholesale illiteracy of the rural masses can hardly be denied. Only 8% of the people are literate and they are mostly concentrated in towns. Add to this the fact that our educational system produces more clerks and bookworms than practical men. Even our agricultural colleges have not produced many practical farmers after half a century of effort. A radical change in our system of education is immediately called for, so that it should produce practical and enlightened men of the world. The whole structure of our economic and social life requires a simultaneous reform if not a radical overhauling.

With better physical health and education of the right kind the whole outlook of the villager will change. At present he is condemned as ignorant, superstitious, fatalistic, improvident and extravagant. It is said that he lacks initiative and has no desire to improve his standard of living. If he gets larger income due to higher prices he wastes it on social ceremonies or his litigation. However, his defects are curable by education on the right lines. Something has been done by the various Government departments, but a well-planned, nation-wide effort is necessary to bring about substantial and permanent results.

If the personal equipment of the average peasant is poor, his land and his implements are no better. Let us first take the quality of the soil of his holding.

3. Problem of the Indian Soil. We have already seen that the size of an economic holding is closely related to the nature of the soil. Where soil is fertile a small holding will support a family and where it is inferior a much larger area may not do so. Physically the soil should be firm enough to take hold of the roots and soft enough to allow free movement of water. Chemically it should contain a balanced quantity of essential salts.

In a previous chapter we have already studied the main types of soils that are found in India. The question is frequently asked whether the Indian soil is deteriorating. In 1893 Dr. Voelcker in his report held the view that no positive evidence was available of soil exhaustion. In 1928 the Royal Commission on Agriculture wrote :— "Such experimental data as are at our disposal support the view that when land is cropped year by year, and when the crop is removed and no manure is added, stabilized condition is reached. A balance has been established in India and no further deterioration is likely to take place under existing conditions of cultivation."[1]

In 1937, Sir John Russell wrote,"... I was on several occasions informed that the yields of rice are declining. No good figures seem to be available and it would be desirable for the Coucil to arrange for sample surveys to be taken".[2]

In 1939, Rao Bahadur Bal Agricultural Chemist to Government of C. P. and Berar expressed the view that the history of crop yields during the years 1900 to 1922 showed that " the soil has reached a stationary state of fertility at a low yield."

The Bengal Provincial Banking Enquiry Committee was of opinion that in Bengal "The fertility of the agricultural land is deteriorating."[3]

Thus the general view is that although positive data is lacking whatever tests are available show that Indian soils have reached almost the lowest stage of deterioration. This is due to the fact that very little is returned to the soil in the way of manures while heavy crops are grown year after year.

Apart from exhaustion the soil may deteriorate through erosion, by the formation of injurious salts or through water logging. Soil erosion implies washing away of the surface soil either through river floods or excessive rain in the hills.

The problem of soil erosion has aisen in several provinces of India. It is of special importance in the U. P. and Western Bengal where a net work of ravines has been formed through this process. Due to heavy rainfall on hill sides, soil erosion has occurred in the southern districts of Bombay and Chhota Nagpur. In the East Punjab it is found in the sub-montaine districts from Hoshiarpur to Ambala. In U. P. 8 millions acres out of a total of 68 millions have been lost in this way. In the East Punjab in Hoshiarpur alone 100,000 acres of land have been rendered unfit for cultivation through soil erosion. Either the land has been swept away or it has been covered with sand through floods.

Soil erosion is not peculiar to India. In the U.S.A. "Something like 17½ millions of acres of land which were once cultivated have been destroyed by gullying"[4] but through land conservation practices productivity has increased by 20% to 30% in U.S A The Government of India obtained the services of Dr. Shuhart of the Soil Conservation Section of U.S. Agriculture Deptt. 3 years ago and on his recommendation deputed a team of scientists to study soil practices in the U.S.A. They have returned and are touring the country to discuss plans for soil conservation to coordinate activities and to find possibilities of training of agricultural personel for this type of work.

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1. Report, p. 76.
2. Russel Report on the work of the Imperial Council of Agricultural Research, p. 24.
3. Report p. 21.
4. Wadia and Merchant, Our Economic Problem, p. 158.

Soil erosion may occur due to several causes. (*i*) Due to cutting of trees or deforestation. (*ii*) Due to removal of vegetation which exposes land to wind and rain. (*iii*) Uncontrolled grazing specially by goats. Grazing does not let grass flourish leads to denudation of the soil. (*iv*) Cultivation on hill slopes has also the same effect.

The remedies are (*a*) Replanting of trees. (*b*) Building of embankments. (*c*) Reclamation of land. (*d*) Control of grazing.

The Punjab Government has created an Anti-erosion Department to meet this evil. In the East Punjab there is a law under which lands can be closed to grazing in certain seasons.

Digging of contour trenches *i.e.*, channels on the slopes at small distances is useful. The water flow is obstructed and the water gets absorbed. Grass and trees can be planted in these channels.

Embankments can be built by the cultivators to prevent water from flowing down.

Reclamation of land in *Chos* is being done by the Forest Department in the East Punjab.

4. **Manures.** India can produce almost any kind of crop on account of her varied climate and soil. But the Indian soils are deficient in phosphoric acid, nitrogen and organic matter. And since the pressure on land has reduced the area kept fallow for reviving fretility, the use of artificial manures has become essential. The various types of manures are discussed below :—

(*a*) *Farm-yard Manure.*—This consists of the dung and urine of cattle. The urine is allowed to go waste, while dung is widely used as fuel. This is not always due to lack of alternative fuel but is often due to custom. Where cow-dung is used for cooking for lack of other fuel, attempts should be made to make such fuel accessible to the villager. Planting of trees along roads and canals and in special village preserves, can considerably solve the fuel problem. Cotton stalks and dry stubble can help. The villager should be instructed in the methods of preserving manure. Mr. Brayne did useful work in the Gurgaon District of the Punjab in this connection. Thousands of pits were dug to preserve manure. But the results were only temporary. Constant propaganda is needed to achieve permanent results.

(*b*) *Composts.*—Compost is obtained through decomposing all sorts of waste material and vegetable matter. In China, vast quantities of composts are manufactured from animal waste combined with herbage, straw and other similar waste. Experiments in preparing composts have been made by Agricultural Departments of provinces like Bengal, Madras and Central Provinces but no practical method has been devised which can be used with profit by the ordinary cultivator on his land.

(c) *Night soil.*—There is still great perjudice against the use of night soil as manure, though it is slowly breaking especially where night soil is available in the form of poudrette. The methods of converting night soil into poudrette—in which form it is much less obnoxious—adopted at Nasik have proved quite successful and should be used all over the country.

(d) *Leguminous Crops and Green Manure.*—The Indian agriculturist knows the value of leguminous crops like gram which improve the soil. The experiments of the agricultural departments have discovered that *sann* hemp on the whole gives the best results. Crops like *dhaincha* and groundnut, the leaves of which can be used as green manure, are also good from this point of view.

(e) *Oil Cakes.*—By exporting oil-seeds India loses a valuable source of nitrogen. If the oil is manufactured in the country, the oil cakes can serve as food for the cattle and also as a source of manure. The Government should assist the development of oil-crushing industry in order to prevent this drain of India's wealth.

(f) *Chemical Manures.*—India is poor in mineral manures. Mineral phosphates are of poor quality. Crude nitre is available in Madras and Northern India. In an advanced system of agriculture nitrogen is supplied from nitrate of soda, sulphate of ammonia, etc. In India, nitrogen is supplied by nature through rainfall and silts, but it is not enough. The increasing demand for artificial manures in India is indicated by growing imports from abroad. But the use of artificial fertilizers in India is very limited indeed. The relatively small amounts that are used are taken up almost entirely by the tea growers. It is now estimated that India requires, at least 350,000 tons of chemical fertilizers every year. The Government have established a factory at Sindri near Dhanbad in Bihar for the manufacture of 350,000 tons of sulphate of ammonia cement will be also produced from the lime sludge thrown out as a by-product in the manufacture of fertilizers. Travancore has arranged to manufacture 60,000 tons of ammonia sulphate. I is believed that within a reasonable period India will be self sufficient in this direction.

(g) *Other Sources.*—Fish is used at places along the west coas as manure. It is abundant here and is not used as food. Sea weed is available in immense quantities in areas near the sea coas and is a valuable fertilizer. Rice husk-ash is also a useful fertilizer.

In addition to these, the old methods of recuperating the soi by rotation of crops, mixed crops and leaving land fallow continu to be used to a more or less extent.

It should also be noted that the Imperial Council of Agri cultural Research—a body created in 1929 at the recommendation of the Royal Commission on Agriculture—constituted a standin Fertilizers' Committee in 1930 to undertake research in the problem of indigenous manures. Each province receives a grant to collec and correlate data on manurial experiments undertaken

5. **Agricultural Implements:** "Agricultural implements in India are, on the whole, well adapted to local conditions," wrote the Agricultural Commission. "They are within the capacity of the draught oxen, comparatively inexpensive, light and portable, easily made and, what is perhaps even of greater importance, easily repaired and they are constructed of material which can be easily obtained."[1] There is, however, great scope for improvement. The Agricultural Department has introduced several types of improved implements like iron ploughs, sugarcane crushers, small pumping machinery, water-lifts, harrows, hoes, seed drills, fodder cutters, etc. Improved sugarcane juice boiling furnaces have also been adopted.[2] But compared with the total number of implements used in India, the improved varieties in use are no more than a drop in the ocean. The estimate of total number of ploughs in use was about 32 millions in 1937 38 while only 6,716 ploughs of improved variety were sold through departmental agencies. The Royal Commission attributed the lack of progress in this matter to two facts :—Firstly, agricultural engineering was regarded as a secondary activity by the Departments and, secondly, the conservatism of the cultivator. The Commission suggested the reorganization of the Agricultural Engineering Section to remedy the first and greater propaganda to meet the second. Though expensive machinery is beyond the pocket of the small holder cheap improved implemets could be brought within the reach of his purse through producing parts of simple instruments on a large scale, railway freight concessions, and rebate, on import duty. An excessive multiplication of improved types is not desirable. "It merely confuses the cultivator." The aim should be evolution of a small number of types suitable for a wide range of conditions, and for mass production. Improving the existing implements is more promising than introduction of new machines. Moreover, the relation of the capacity of the cultivator's bullocks to the implements they are required to draw, demands careful investigation before new varieties are constructed.

The Central Tractor Organisation under the National Government of India has already purchased 600 tractors and is arranging a loan from the I. M. F. for the purchase of more agricultural machinery to cultivate culturable waste lands all over the country. The tractors are lent to provinces and States and the rent for reclamation of weeds infested land is Rs. 8/8 per tractor per hour.

6. **Improved Seed.** The importance of good quality seed needs no emphasis. It has been estimated that an increase in production of 5 to 10 per cent can be obtained from improved varieties. The seed is indifferently selected by the Indian Agriculturist. In many cases the grain kept for seed purposes is consumed by the time the sowing season arrives, or deteriorates through careless keeping. Then the peasant has to borrow seed of indifferent quality from the money-lender.

In recent years the Agricultural Departments have done good work in supplying improved seed to the agriculturists. New disease-resisting varieties have been evolved, especially in the case of sugarcane, jute and cotton, oil-seeds, tobacco, and to some extent, wheat and gram.

According to the figures relating to the year 1938-39, about 70 per cent of the total area under sugarcane, about 50 per cent under jute, 22 per cent under wheat and 27 per cent under cotton is sown with improved seed. But progress regarding food crops other than wheat has not been so satisfactory. During the Grow-More-Food campaign special efforts were made to increase the area under improved strains but the progress is very slow. Sir John Russel recommended that the Imperial Council of Agricultural Research should set up a central organization in each province for the multiplication and distribution of seeds of proved varieties.[1]

Another aspect of having improved seed is to prevent its adulteration with inferior seed. In this connection some years ago legislative measures were passed to prevent deterioration of cotton. Under the Cotton Transport Act, 1923, a Provincial Government can notify any area in which cotton of superior quality is grown, and prohibit the importation into such area, except under licence, of ginned or unginned cotton, cotton seed or cotton waste. The Act is in force in certain areas of Bombay and Madras. Then there is the Cotton Ginning and Pressing Factories Act, 1925, under which adulterated or damped cotton can be traced not only to the factory which ginned or pressed it but also to the original owner.[2]

7. Control of Crop Diseases and Pests. Closely connected with the problem of better seed is the control of pests and diseases of plants. If such diseases are left to take their toll the gain obtained by better seed can be easily lost. The connection between these two is intimate because certain varieties of seed can be evolved which are immune to disease or are "disease resistant."

The problem is very serious in the case of sugarcane. A survey made in 1937 showed that 37 to 53 per cent of cane delivered to five factories in Bihar was infected as against 20 to 35 per cent in 1936. This shows that trouble is spreading. It is estimated that the damage caused by insects and pests to Indian crops is to the value of nearly Rs. 180 crores annually.[3] One estimate puts it at 10 per cent of the total produce.[4]

The main preventives fall into two categories: (*i*) measures to prevent the spread of disease from one locality to another, and (*ii*) measures to control the disease within a locality.

The first involves measures to prohibit imports of diseased plants from abroad, and to prevent spreading of disease from one province or State into another. There is an Insects and Pests Act which allows importation of plants provided they are accompanied by a health certificate. "But insects and fungi that are harmless on their native soil may become destructive in foreign countries. It would therefore be safer to allow imports only of such types of plants as have been declared harmless by competent entomologists and mycologists after experimentation."[1] Fumigation of plants arriving in India from abroad is at present carried out by the customs authorities. The Bengal Famine Commission suggests that this work should be entrusted to specially trained personnel.[2]

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[1] Report, op. cit. p 50.
[2] Royal Commission, Report pp. 101-106 and p. 120.
[3] N. Gangulee—*India, What Now?* p. 129.
[4] Bengal Famine Report, op. cit. p. 158.

As regards the spreading of diseases within the country the Insects and Pests Act permits inter-provincial legislation to prevent this spread but full advantage has not been taken of this provision.

(*ii*) The second set of measures consists of adoption of resistance-varieties, changing the condition of the soil or time of cultivation and destruction of pests by chemical means. The last means dusting, spraying and fumigation by various chemicals. The Punjab campaign against spotted bollworm of cotton in 1938-39 showed treated areas gave much greater yield than untreated areas. Sir J. Russell recommended that executive action in this matter should be taken by the Central Government.

8. **Livestock.** Apart from land, the most important and expensive equipment of the agriculturist is his cattle. "Without them," to quote M. L. Darling, "the fields remain unploughed, store and bin stand empty, and food and drink lose half their savour, for in a vegetarian country what can be worse than to have no milk, butter or ghee ?" On account of his small and fragmented holding and limited financial resources, it is neither economical nor practicable for the Indian cultivator to use mechanical sources of power. For ploughing his fields, for lift irrigation, and for carting his produce and manure cattle are indispensable. These are not only the source of milk but also supply manure and fuel when alive and when dead yield meat, skins, hair and bones for a variety of purposes. It has been estimated that Indian cattle, in spite of their being uneconomically exploited, yield an annual income of over Rs. 1,265 crores which is more than the value of India's cash crops.[3]

In spite of the utility and importance of cattle to India, however, there are certain unfavourable features which deserve attention. In the first place, India is supporting too many cattle to be economically justifiable. According to the cattle census[4] of 1936, British India has about 220 million cattle. The total cultivated

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[1] Nanavati and Anjaria—*The India Rural Problem*, p. 94.

[2] Report, Bengal Famine Commission, op. cit. p. 165.

[3] Ward in *Economic Problems of Modern India*, Vol. I., Edited by R.K. Mukerjee, p 140.

[4] The total Indian cattle population including the Native States but excluding Burma, in 1935, was as follows :—

Oxen	...	67,771,558
Buffaloes	...	461,06,155
Sheep and goats	...	196,658,151
Total	...	**310,535,864**

area in British India (excluding about 50 million acres of fallow land) was about 210 million acres. Roughly, therefore, we had about 100 cattle for a hundred acres of land annually sown with crops. For Holland the figure is 38 cattle per 100 acres and for Egypt 25. Further, it has been estimated that out of the 310 million cattle in the whole of India only 60 million are working cattle. This gives an average of one pair of bullocks per 10 acres of cultivated land, "which is barely sufficient even in the Punjab, where the largest number of working bullocks are to be found. In the other provinces where a very large proportion of the cattle are underfed and under-sized, the position is much worse."[1] Thus India possesses a very large number of superfluous cattle. No wonder a foreign visitor remarked that "India is being eaten by her animals."

There are various reasons for the excessive population of cattle in this country. The prejudice against destroying life is so strong among the Hindus that they would rather starve the cattle than kill them. Secondly, due to the inefficiency and high death rate of cattle the cultivator has to maintain a large number as reserve. The close connection between "inferior quality" and excessive numbers has been well described by the Royal Commission on Agriculture. "We are of the opinion," they wrote, "that the census figures suggest the existence of a vicious circle. The number of cattle within a district depends upon, and is regulated by, the demand for bullocks. The worse the conditions for rearing efficient cattle are, the greater the number kept tends to be. As numbers increase, or as the increase of tillage encroaches on the better grazing land, the pressure on the available supply of food leads to still further poverty in cattle." Bengal has the highest number of cattle per 100 acres of cultivated area, namely, 109, compared with 68 in the Punjab and 43 in Bombay.

The inferior quality of Indian cattle may be attributed to indiscriminate breeding, underfeeding and disease. These are all interconnected. Excessive breeding leads to underfeeding which in its turn leads to low resistance against disease. All the three problems, therefore, demand our special attention.

9. Cattle Breeding. Indian cattle are allowed to roam about for grazing in the village commons or on the stubble in mixed herds. Cows are thus covered by indifferent qualities of bulls and a progressive deterioration of the breed starts. To improve quality, breeding should be discriminate. Only good quality cows should be allowed to breed and they should be covered by specially bred or selected bulls. This involves castration of all male cattle except those regarded good enough for breeding. It also involves the supply of specially selected bulls. The Veterinary Departments of the Government have recently begun to perform the former function. As regards the second, Departments of Agriculture are paying greater attention. Very useful work is being done at the Hissar farm in the Punjab where Pedigree Hariana breed bulls are being raised and are supplied at low prices for breeding purposes to District

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[1] F. Ward, op. cit. p. 139.

Boards, etc. Similar work is being done at Hosur farm in Madras.

The Imperial Agricultural Research Institute (removed to New Delhi in 1938 from Pusa) carries on experiments to evolve strains of cattle with better milking capacity and suited to Indian conditions. To improve milking breed two methods have been tried: cross-breeding with sires of high milk-yielding strain from abroad and selection from indigenous cattle. "There is now general agreement that the latter is more calculated to produce results of lasting value, and it has been established that by careful selection from Indian strains, cows can be bred which are capable of giving milk yields comparable with those of foreign animals."[1] Mention may also be made of the technique of artificial insemination practised with great success in Russia where large herds of improved cattle were built up within a relatively short period of time. The method can be of great value in India and is under investigation by the Imperial Council of Agricultural Research.

10. Cattle Feeding. The cattle in India are underfed because (*a*) the available area for growing fodder is not enough to feed them, (*b*) the system of feeding is wasteful. The cattle, especially dry cows and non-working cattle, are left to themselves to get what they can from the waste lands. The problem can be solved by (*i*) reducing the number of cattle by eliminating the superfluous ones and by controlled breeding, (*ii*) increasing the supply of fodder. Unfortunately more land for fodder crops is not available. Production of fodder, however, can be increased by cultivating higher-yielding crops like Egyptian clover (Berseem) and other grasses. The Agricultural Departments have made useful experiments in this connection. The available fodder can be economized by stall feeding, by preparing silage from inferior straw and waste, by cutting grass and preserving it as hay, by chopping fodder with the fodder cutter, etc.

11. Control of Cattle Disease. Indian cattle are subject to periodic epidemics (*e.g.*, rinderpest, foot and mouth disease) and other diseases. These are due to low vitality, unhygienic surroundings and polluted drinking water. Both preventive and curative measures are necessary. Research into the causation, prevention and cure of disease is carried out at the Imperial Veterinary Research Institute and excellent results have been achieved. It is proposed to extend its activities. Hygiene is a matter of education and propaganda and is a part of the general scheme of rural uplift. Prevention of disease by inoculation with sera has been tried on a limited scale. Lack of funds and conservatism of the villager—the latter is gradually disappearing—have been the main limiting factors. Regarding the curative side of the problem, veterinary dispensaries exist and itinerant staff of the department also visit villages to help the cultivator but the number of such dispensaries is too small to adequately cope with the problem.

We may conclude, therefore, by saying that what India wants is not more cattle but better cattle.

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[1] Bengal Famine Commission (Final Report), pp. 178-9.

CHAPTER IX

IRRIGATION

1. Importance of Irrigation. The soil, seed and manure may be good, the implements and cattle efficient, but without an adequate and regular supply of water, agriculture is a precarious business. Where rainfall is not seasonable and adequate, artificial irrigation is indispensable for agricultural operations.

The average rainfall in India as a whole is 45 inches per annum, but local variations are considerable. For instance, in western Rajputana it is not more than 10 inches in the year, while in the submontane tracts of the United Provinces it is as much as 50 to 100 inches. The second characteristic of rainfall is that it is unequally distributed through seasons. Most of the rain in the country (except in Madras) falls between June and October. The rest of the year is very dry. Thirdly, rainfall is deficient and is liable to failure. Thus before the era of railways and canals, "ghastly famines ravaged the country periodically and scarcity was the common lot of the people over large areas in many years."[1]

2. Area under Irrigation. In 1945-46 the total sown area in the provinces and States now covered by the Indian Union was 218 million acres (including Hyderabad) of which 39·2 million acres (18%) were artificially irrigated. The importance of irrigation, however, varies considerably in different provinces[2] as the following table relating to the year 1939 40 indicates :—

Major Provinces	*Percentage of irrigated to total sown.*	*Major Provinces*	*Percentage of irrigated ot total sown.*
Punjab (E. and W.)	56·9	Assam	8·7
Madras	29 3	Bengal (E. & W.)	6.8
United Provinces	29 2	Bombay	5·0
Bihar	22·5	C.P. and Berar	5·1
Orissa	21·5	All India	24·3

The low percentage of irrigation in Bengal and Assam need not cause concern because of the plenty of rainfall there. But the provinces of Bombay, Madras and East Punjab where rainfall is deficient, require more irrigational facilities.

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[1] Sir Bernard Darley in *Economic Problems of Modern India*, op. cit., p. 148, also Indian Year Book 1944-45 p. 288.

[2] As regards the total area irrigated, United Provinces (13·1 million acres), Madras (10 6 million acres), Sind (5·28 million acres), Bihar (5·22 million acres), Bengal (2 0 million acres), Orissa (1·5 million acres), Bombay (1 4 million acres), Bombay (1·4 million acres), C.P. and Berar 1 3 million acres and N. W. F. P. (1·46 million acres).

3. Kinds of Irrigation Works. There are three main types of irrigation works in India : (*a*) wells (*b*) tanks, (*c*) canals.

Out of a total area of 261 million acres in India in 1943-44, 57 million acres were irrigated which was distributed under different types of irrigation as follows :—

IRRIGATED AREA (In millions of acres)

By Canals	By Tanks	By Wells	By other sources	Total area
30	6	14	7	57

Out of this, 37·5 million acres (out of 213 million acres total area) were irrigated in the Indian Dominion and 19·5 million acres in Pakistan (out of a total area of 43 million acres).

(*a*) *Well Irrigation.* There are about 2½ million wells in India and the total capital invested in them comes to about Rs. 100 crores. The chief well-irrigated provinces in India are the East Punjab, the U.P., Madras and Bombay. Wells are mostly private works but the Government also helps in their construction by advancing *takkavi* loans[1] and by exemption from enhancement of revenue (either temporarily or permanently) lands that have been improved by well-irrigation, and by placing boring equipment and skilled labour at the disposal of the landlord.

The U.P. Government is subsidizing a masonry-well scheme by which Rs. 300 to Rs. 500 per well are given as a subsidy. More than 2,000 such wells have already been sunk, while it is planned to sink 48,000 more.

In 1948, the Government of India secured the services of two American experts to consider the following problems :—

(*i*) The best method of supplying water to crops from tube-wells on the basis of volume acreage ;

(*ii*) The spacing of tube-wells so as not to disturb the spring-water supply ;

(*iii*) Radial tube-wells and the agronomic problems of the usar land.

The experts have reported that there are excellent prospects for tube-well irrigation in East Punjab, U.P. and Bihar. The Government has accordingly planned to sink 6,000 tube-wells in India. The main difficulty in the way is lack of power, to supply which a number of projects are in hand. A Central Groundwater Organization has been set up (1948) to explore the groundwater resources in India. At present there are about 6,000 electric pumping sets working in Madras to irrigate land. Similar lift irrigation schemes have been introduced in Bombay and Bihar to supply water in the dry off-season.

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[1] Loans given under the Land Improvement Loans Act of 1883. Under this Act advances are made to approved applicants at 6 per cent interest, (Bombay 5 per cent) and recovery is made by easy instalments, periods varying from 7 to 30 years.

(*b*) *Tanks.* While wells are privately owned, tanks are administered by the State. Outside the Punjab they are found in almost all the provinces. Madras contains the largest number—about 35,000. They are of all sizes ranging from big lakes—formed by the erection of high dams across the beds of large but irregularly flowing rivers—to village ponds. Most of the tanks date from very early times and many of them have been silted up. They are of great use in places where it is not possible to construct canals.

The Government is taking as keen an interest in the repair and construction of tanks as in that of wells. Thousands of minor irrigation schemes have been completed all over the country and many more are in hand.[1]

(*c*) *Canals* are the most important form of irrigation at the present time. With very few exceptions, they have all been construced and are being maintained by the State. Canals are of two types : perennial and inundation canals. Perennial canals have an assured supply of water all the year round. The inundation canals get water only in flood time.

We may also mention a third type of canals—storage works canals. They are constructed by building a dam across a valley to store the rainwater during the monsoon. This water is then distributed for irrigation when required by the neighbouring lands. Such works exist in the Deccan, the Central Provinces and Bundelkhand.

Canals are classified by the Government in a different way. Before 1921 they were classified into (*i*) productive, (*ii*) protective and (*iii*) minor.

(*i*) Productive works were expected to yield a net revenue sufficient to cover the interest charges on the capital invested within ten years of their completion. These are found mostly in Northern India and Madras.

(*ii*) Protective works were not expected to yield a direct return but were a measure of insurance against famines. The cost was generally met from the annual grant set aside for famine relief and insurance.

(*iii*) Minor works belonged to a miscellaneous class, *e.g.*, tanks. They are also financed from current revenues.

Since 1921 this classification has been abolished. Now all irrigation works for which capital and revenue accounts are kept are classified as (*i*) productive and (*ii*) unproductive.

4. A brief History of Irrigation in India. The policy of the Government with regard to irrigation has passed through the following stages :—

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[1] "The Government have sanctioned in 1946-47 loans amounting to Rs 34 lakhs and grants amounting to Rs. 1·5 crores for the construction of 73,000 new wells, 3,000 tanks, 5,500 minor irrigation projects and repairs to 24,000 old wells and 3,000 old tanks. The increased production is estimated at 176,000 tons.—*Agricultural Situation in India*, Vol. III, No. 1, p. 21.

(*a*) The first efforts of the British engineers were directed towards the improvement of the old existing works such as the Western Jumna Canal, the Eastern Jumna Canal, the Ganges Canal and irrigation works in the deltas of the Cauvery and Kistna rivers. In the Punjab, the Upper Bari Doab replaced the Old Hasli Canal which had carried water to Lahore and Amritsar in olden days.

(*b*) The second stage was of canal construction through private companies. The East India Irrigation and Canal Company was formed in 1858 to construct canals in Orissa. By 1866 its capital was exhausted and the Government had to take it over. Orissa canals were eventually completed, as was the Sone canal in Bihar which, too, was a part of the Company's original scheme. The same was the fate of the Madras Irrigation Company, formed in 1863.

(*c*) The third stage was the construction of productive irrigation works by the Government through funds raised by loans during 1880 to 1900. This led to the construction of five irrigation works of great magnitude including the Sirhind Canal in the Punjab, the Lower Ganges and Agra Canals in the United Provinces.

(*d*) The next stage was the construction of colonization canals in the Punjab which are now included in Pakistan.

(*e*) The next stage was the construction of Famine Protective Works. After the great famine of 1877-78 it was decided to set apart Rs. 150 lakhs a year in the Famine Relief Insurance Fund. Half of it was to be used for famine relief when need arose and the other half was allotted for the construction of railways and canals. Later the whole amount was used for irrigation works to protect the country from famines. Under this scheme the Betwa Canal was constructed in the Central Provinces with two storage reservoirs, the Rushikulya project was undertaken in Madras and several important storage schemes were inaugurated in Bombay, Deccan, *e.g.*, Nira and Periyar Canal systems fed by lakes held up by dams.

(*f*) Indian Irrigation Commission, 1901-03. The Commission reported in 1903 and laid down a definite policy regarding ' the selection, financing and maintenance of canal works." As a result a large number of new works were undertaken between 1905 and 1914. The most important of these was the Triple Canal Project in the Punjab. Most of the other works constructed were famine protective works in the hilly tracts of the C.P., Bombay, Deccan and Bundelkhand Another canal completed during this period was the Triveni Canal in Bihar.

(*g*) Post-war (1914-18) Developments. After the Reforms of 1919, irrigation become a provincial subject. The Provincial

Governments gained much larger initiative in the construction of canals. They had to obtain the sanction of the Government of India only if the estimated cost was more than Rs. 50 lakhs. Loan could be borrowed not only for productive works but also for other works. Money could also be utilized from the Provincial Famine Insurance Grant when not required for famine relief.

Due to the period of prosperity following World War I many new irrigation schemes were launched.

(*i*) The Sutlej Valley works in the Punjab was completed at a cost of Rs. 33·31 crores. (*ii*) The Sukkur Barrage opened in 1932 at a cost of Rs. 24 crores. (*iii*) The Sarda River Irrigation Scheme irrigating parts of Rohilkhand and Oudh was opened in 1928 and is estimated to irrigate a million acres. (*iv*) Another work completed recently is Cauvery Mettur Project in Madras, which will irrigate 300,000 acres. The Nira Right Bank Canal Scheme, with which is connected the Lloyd Dam, is one of the biggest of its kind. The Damodar Canal in Bengal has been recently opened.

The Agricultural Commission recommended a closer relation between the Agricultural and Irrigation Departments. They also recommended the creation of local advisory committees to deal with complaints about irrigation. Finally they recommended the establishment of a Central Bureau of Irrigation at Delhi which was done in 1931. Its main objects were to ensure free exchange of information and experience between provincial irrigation officers to co-ordinate research and disseminate results.

5. New Irrigation Schemes. After the partition of India in 1947, the National Government of the Indian Dominion have realised the urgent need for irrigation to produce more food in the country. In pursuit of this objective concerted efforts are being made to bring cultivable waste lands under the plough and a large number of irrigation schemes, big and small, have been taken in hand : Persian wheel wells, tube-wells, tanks, canals, reservoirs and river-training—nothing is being neglected. The chief obstacle is the lack of enough power to generate which machinery is being imported from wherever available. When completed, these single and multi-purpose projects will irrigate another 25 million acres or thereabouts. At present only 6% of the available water is purposively controlled, while the rest runs waste to the sea and sometimes cause heavy loss to life and property on the way.

Madras has an ambitious programme of irrigation in hand. These schemes can be grouped under three heads—(*a*) short-term schemes to cover an area of about 4 lakh acres at a cost of Rs. 5 crores, (*b*) middle-sized schemes to cover an area of 5 lakh acres at a cost of Rs. 30 crores, (*c*) major and long-term schemes to cover an area of about 30 lakh acres at a cost of Rs. 78 crores. The total area benefited by these several schemes put together will be four million acres. These projects include the Tungabhadra river project, Rampadasagar project, Kistnapeunar project, the Lower Bhawani, Gaudi Kola project and Malanpuzha project.

The *U.P.* is also forging ahead with some very useful irrigation plans. Several new dams, power houses and canals are proposed to be built which will generate electricity and irrigate land. This electricity will be utilized for working a large number of tube-wells. The Pipri dam and power station project is the most important. A dam 280 ft. high impounding nine million acre feet across the river Rehand and costing Rs. 16·25 crores is proposed to be built. It will bring 4 million acres under irrigation. Flood control, fish culture, navigation and recreation facilities will be additional advantages. Means of approach to the site are being established and the work has been authorized. The Nayar dam project on the River Nayar, a tributary of the Ganga, will give a huge amount of electricity as well as irrigate an area of 238,000 acres and further improve the irrigation of a million acres. The Ram Ganga project is expected to irrigate 8 lakh acres besides supplying a great deal of electricity. A large number of other schemes such as the Supra Dam project, the Kothri Dam scheme, and Lalitpur Reservoir have been sanctioned and aim at supplying water for irrigation in different districts.

West Bengal has the Damodar Valley project in hand which will provide perennial irrigation to 3/4 million acres at a cost of Rs. 55 crores and will give an income of Rs. 6 crores to the cultivators every year. Construction has started. Work on the Mor Reservoir project has also started. It contemplates a dam on the river Moorakehy. The reservoir will have a capacity of one million acre feet and will irrigate 6 lakh acres. In addition, there are many other minor schemes under construction.

The most important scheme in *Bihar* is the Kosi Multi-purpose Project for irrigation, power, navigation, flood control, reclamation of water-logged land, fish culture, etc. It will cost Rs. 90 crores and will irrigate over 2 million acres besides supplying about 1·8 million killowatt of cheap power. The Gandak Valley project envisages a weir across the River Gandak and will bring about 6 lakh acres under irrigation in Saran District at a cost of about Rs. 3 crores. Another 50,000 acres in Monghyr District are proposed to be irrigated by a canal taking off from River Sakare. Bihar has also in hand the construction of many water-lifting schemes with the help of power pumps.

Bombay has a large number of irrigation projects in view, such as the Meshwa Canal project, the Mahi Canal project, the Verdala Tank project, the Gangapur Dam project, the Girna project, the Asoga Reservoir scheme and the Dadi project at a total cost of Rs 34 crores. The total area irrigated by these projects will be 7,60,000 acres.

C. P. and Berar have designed to undertake the construction of eleven projects at a cost of Rs. 4 crores to irrigate over 2 lakh acres of rice land. The Narbada Tapti multi-purpose project envisages the irrigation of a million acres of land in C.P. and Gujarat besides controlling floods in monsoon months. The work is proposed to be carried out by the Government of C.P. and Berar in co-operation with the Central Government.

East Punjab proposes to irrigate 4·5 million acres of land in Gurgaon, Hissar, Rohtak districts and the Patiala and East Punjab States Union and Bikaner State. The Nangal project which will supply power for the construction of Bhakra dam is progressing satisfactorily and 2/3 of the work on the pilot headings of the two tunnels to divert the flow of River Sutlej from the point of the dam has been completed. Road and rail approaches to the site have also been completed. Besides canal projects, a large number of tube-wells are also proposed to be sunk.

Orissa proposes to develop the Mahanadi Valley. The Central Waterways, Irrigation and Navigation Commission has designed three dams at Hirakud, Tikarpara and Naraj, each with its own canal system and hydro-electric installation. The Hirakud dam project has already been taken in hand and will irrigate more than one million acres of land besides providing electric and navigation facilities at a total cost of Rs. 4·781 crores, and will earn an interest of 4·29 % on the sum at charge per year. Besides, there are many other minor schemes including dams and diversion weirs on streams in hand.

The Indian States Unions are also not behind in undertaking works of irrigation. Hyderabad, Mysore, Saurashtra, Gwalior, Travancore, Cochin, Rajasthan are all rapidly forging ahead.

6. Some Important Multi-purpose River Projects. Until very recently the sole object of irrigation works constructed by the Government was to provide only irrigational facilities. A welcome change has occurred in the point of view and policy of Government after India became free.

As a result of a number of consultations and conferences it was decided to set up a Central Waterways, Irrigation and Navigation Commission (CWINC for short) in 1945 This introduced a radical change in the policy of the Government. It was laid down that the scope of water exploitation would no longer be confined to the sole purpose of providing irrigation but would extend to other objects such as generation of electric power, navigation, flood control, control of malaria, prevention of soil erosion, water-logging and so on.

As a result of the new policy a large number of multi-purpose projects are under consideration and preparation by the CWINC which has become an all-India fact-finding, planning and co-ordinating organization in this respect. A few words about some of them will not be out of place here.

(*a*) *The Damodar Valley Project.* The Damodar river runs through Bihar and Bengal and falls into the Hoogly. A barrage is to be constructed at Durgapore, 15 miles below Raniganj. From there two canal systems will take off on either bank of the river irrigating an area of 863,000 acres. The main canal on the left will be navigable from Raniganj to Calcutta. Silt clearance of all channels will be arranged for sanitary drainage and control of malaria, Increased production is valued at Rs. 5 crores a year. Nearly 300,000 kilowatts of electric power will also be available at cheap rates.

(b) *The Kosi Project* will cover parts of Nepal and Bihar. A dam 750 feet high will be constructed across the Chatra gorge in Nepal which will trap all harmful sands and store 11 million cubic feet of water. At the site of the dam a power plant generating nearly 1·8 million kilowatts will be erected. Two barrages will be constructed, one inside Nepal and the other at the Nepal-Bihar border with canals. Irrigation will cover one million acres in Nepal and two million acres in Bihar. The scheme will give navigation facilities from Calcutta up to the Ganga and further through the Kosi reservoir up to a short distance of Khatmandu.

(c) *The Mahanadi Valley Project* will comprise three dams, one at Hirakud near Sambalpur, the second at Motra at Tikarpara 130 miles down and the third at Naraj near Cuttack. The irrigation will cover 2⅛ million acres in Bihar and Eastern States. Nearly half a million kilowatts of power will be generated. Further navigation over 300 miles distance from Hirakud up to the sea will be provided.

(d) *The Sone Valley Project* will provide dams across the main stream and the tributaries. The Pipri dam on the Kihand tributary is being proceeded with by the U. P. Government. The scheme will generate 150,000 kilowatts of power. Irrigation will benefit Bihar down the canal system of the Sone. Navigation will be possible over a considerable distance up the Sone in conjunction with the Ganga.

(e) *The Narbada and Tapti Projects* will provide perennial irrigation for cotton, wheat and other cereals. There are possibilities of power development also. Navigation will be available practically throughout the two rivers. The areas affected are U. P., C.P, Berar and some Indian States.

(f) *Bhakra and Nanjal Projects.* After protracted negotiations with a number of States, the projects have been taken in hand. The first involves the construction of a 480-ft high dam across a gorge in the River Sutlej at Bhakra and creation of a reservoir, with a capacity of 3·5 million acre feet capable of a mean discharge of 6,600 cusecs per second for a period of 270 days—the dry part of the year. The irrigation system will consist of 200 miles of lined canals and a network of distributories commanding a total area of about 4·5 million acres of land. The scheme will also generate 1,60,000 kilowatts of electricity with an installed capacity of 3,20,000, kilowatts at a total cost of Rs. 70 crores.

The work of designing the dam has finally been entrusted to a firm of American consulting engineers headed by Mr. Savage who is generally considered the biggest living authority on high dams and has already designed marvels like the Boulder Dam in the U. S. A.

The work on the Bhakra Dam has commenced in earnest. Funds have been allotted by the Central Government and steps are being taken to obtain the required plant and machinery. Work on the Nangal Power project, which comprises a weir across the River Sutlej eight miles below Bhakra and electricity from which is essential for the construction of Bhakra, is progressing satisfactorily.

7. **Appreciation of Government Irrigation Policy.** India is fortunate in her immense water and hydro-electric resources. But not more than 6% of her water is hitherto utilized. The rest runs to waste. Large areas all over the country are lying as culturable waste, others produce poor crops for want of irrigation facilities. Besides, the total installed capacity of hydro-electric power is not more than half million kilowatts while her potential is estimated to be no less than 40 million kilowatts.

The foreign Imperial Government did not do much to utilize the potential resources of India. India is fortunate in at last having a National Government which is giving irrigation and hydro-electric projects its best attention and their execution the highest priority. These projects are going to play a very important part in raising the *per capita* production and the standard of living of India's teeming millions and will thus lay by the ever-present bogey of famine as well as change the present food deficit into a surplus. All these projects, some of which have already been taken in hand and others are in the process of being investigated and surveyed, will add over 27 million acres to India's existing irrigated area and will add about nine million kilowatts of hydro-electric energy to the existing half million. They will also give us facilities for navigation, fish culture, control over floods in monsoon seasons, reclamation of water-logged lands, recreation, etc., and will thus bring about no less a revolution in the life of the people than the Tennessee Valley Authority in the U.S.A.

No doubt they involve expenditure of hundreds of crores of rupees during the next ten years. They will ultimately give an added stimulus to trade and industry and provide employment for lakhs of people who are at present either unemployed or under-employed. Through the increased property and taxable capacity of the people, the Government of India will gain an enhanced income to meet its greater responsibilities and activities.

8. **Dangers of Irrigation.** Construction of large irrigation projects have not proved an unmixed blessing. Water logging and salt effervescence in certain areas have led to deterioration of the soil and creation of unhealthy surroundings. In West Punjab and Bombay, for instance, a good deal of land has become unfit for cultivation due to this reason. It has been due to the rise in the water level, the effects of which appear in two forms : (i) saturation of the soil locally known as *Sem*, and in worst affected areas the appearance of water on the surface and formation of *jheels* ; (ii) concentration of salts in the upper layers of the soil, locally known as *Thur*.

According to Prof. Brij Narain, the approach of the danger is marked by the following stages :—

(*i*) For one or two years *barani* crops are unusually successful and there is spontaneous growth of the rich *maina* crop.

(*ii*) In the third year patches of *kallar* begin to appear on the affected fields and seed does not germinate on these patches.

(*iii*) Yield begins to diminish and the patches extend till they cover the *whole* field. (*iv*) Depressions in close proximity to the canal remain permanently damp and have water of a rusty colour. (*v*) The spring level rises and comes closer up to the surface of the land. (*vi*) Houses in the *abadi* begin to crumble to dust and eventually collapse. (*vii*) An obnoxious odour is emitted by *abadis* and the drinking water tastes raw."[1]

What happens actually is that the salt of the soil come up to the surface with the rise of the sub-soil water level. The canals act in two ways in causing this phenomenon. They intersect drainage lines and cause rain or flood water to be held up. Secondly, they cause their own water to fall vertically until it reaches the spring level. "If the sub-soil outflow is not enough to balance the inflow, the spring level rises being drawn up by capillary attraction and all the salts of the earth come to surface and make the land unfit for crops."

The remedies usually suggested for this phenomenon are : (*a*) Pumping out of water by tube-wells and other methods of drainage. (*b*) Proofing of canal beds by concrete. But this does not affect the channels. (*c*) Opening out of closed and obstructed drainage. But this may involve the re-making of the whole canal. (*d*) Replacing canal irrigation by well irrigation. This would be very expensive though the expense may be worth while where the danger is imminent. (*e*) Prevention of over-irrigation, by changing the system of supply, to force the cultivators to economize water. The present system of supply leads to over-irrigation. Charge for water is made not according to the water used but according to crops matured. The sale of water by volume has not been tried but it is held that it would make the cultivator economize water.

9. Water Rates. A few words may be said about the fixing of water-rates by the Government. The maximum that the Government can charge is indicated by the net benefit derived by the cultivator from canal water. This would mean the appropriation of the whole of the increase in the return from land due to the canal water. The minimum is represented by the cost of supply to the Government including interest on capital sunk in canals, and their maintenance charges. This will come to much lower than the present charge.

Charging according to cost of service is indefensible on various grounds. It will give the benefit of canal construction to a section of the people while the river water is the property of the whole community. Canal construction is financed partly from surplus revenue and partly out of money borrowed on the security of general revenues. Some of the benefits, therefore, must be shared by the people as a whole. Some people present the analogy of railways and draw attention to the low profits made by them on capital compared with high profits from canals. But this analogy is not admissible, since the benefits from railways are enjoyed not by one fortunate section of the people but the whole community. Canals therefore must contribute to the general revenues. In other words, a part of the water rates must be in the nature of a tax. The rate, however, should not be too burdensome on a class of people most of whom are poor.[1]

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[1] Brij Narain—*Indian Economic Life*, p. 283.

For a fuller discussion of the subject see Report of the Punjab Abiana Committee (1933) and Indian Taxation Inquiry Committee (1922).

CHAPTER X

MARKETING OF AGRICULTURAL PRODUCE

1. **Introduction.** Not long ago India had a self-sufficient village economy. All that was produced was consumed in the village or in the immediate neighbourhood. The problem of marketing did not exist. Things have changed now. The surplus produce of the village, mainly cotton, sugarcane and oilseeds, is sold in distant markets. The money thus obtained is used to buy goods produced far away, to pay Government demands of land revenue, and so forth. The economic position of the peasant thus depends on the money he can secure from the surplus that he has to sell in the market. He has little control over prices which are determined by the broad factors of supply and demand in the world at large. His sale proceeds can be increased by handling the produce better and reducing the charges of the various intermediaries between him and the ultimate consumer This can be done by removing the handicaps from which the farmer suffers either because of the inherent character of agriculture as a profession or from the peculiar circumstances under which he works in India. Agriculturists in all countries are handicapped by the seasonal and scattered character of their operations and their great dependence on nature. In addition to these, the Indian peasant is handicapped by the illiteracy, ignorance, conservatism, small holding, lack of capital, defective means of transport and a host of other disabilities. In this chapter we shall study some of the important handicaps from which our agriculturist suffers as a seller and the remedies thereof. To quote the Agricultural Commission· "Until he (the peasant) studies the art of sale, either as individual or through combination with other producers, it is inevitable that he should come off second best in his contest with the high specialized knowledge, and the vastly superior resources of those who purchase his produce."[1] His main handicap is that he *has* to sell his produce at an unfavourable place, at an unfavourable time, and on unfavourable terms.

2. **Essentials of Good Marketing.** In order that the produce may be sold to the best advantage of the producer, several conditions must be present. In the first place, the quality of the produce should be good and there should be no adulteration Agricultural commodities cannot be produced in a standardized form like manufactures but quality can be ensured to some extent by using standard seed of uniform quality, by adopting efficient methods of harvesting, by grading and standardizing the product, and by storing it well. This is the first essential of good marketing.

The second essential of good marketing is the staying power of the seller. If he is hard pressed to sell all his produce immediately after the harvest, the selling pressure will depress prices for all the agriculturists. It is necessary, therefore, that either the peasant should have enough reserve of his own to meet his requirements of land revenue and other immediate payments or he should be able to get cheap credit. If he has to resort to the money-lender the remedy may be worse than the disease.

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[1] Report, Agri. Com., p. 382.

The third essential of good marketing is the existence of good means of communication and transport. The peasant should be in touch with the movements of prices in the markets to enable him to take advantage of favourable prices and he should have convenient access to the market. If transport facilities are absent, the peasant would prefer selling to itinerant purchasers or village banias at low prices.

Finally, there should be well-conducted markets at convenient distance. It is necessary that these markets should be properly regulated and be under impartial supervision and control. If the market practices are arbitrary, the cultivator will lose confidence in them and would prefer to sell his produce in his own village even on comparatively unfavourable terms.

Rural marketing is a part of a wider problem. The Indian farmer is poor because the system of rural marketing is defective, but the system of rural marketing is defective because, above all, the farmer is poor. There is thus urgent need for an all-round attack on the problems of rural life.

3. **The Present System.** (*i*) *Sales in villages.* The proportion of the produce sold and that kept for consumption by the household differs with the individual and the locality. The "surplus" sold is greater in the case of commercial crops than food crops. The more prosperous cultivators sell a larger proportion of their total produce in the end, though they may sell a small quantity at harvest time. The poorer peasant sells only what is necessary to meet his obligations to Government and the money-lender and for sundry household purposes

There is, however, more definite information as to the proportion of the produce sold in the village and taken to the market. One investigator[1] has estimated that 60 per cent of wheat, 35 per cent of cotton and 70 per cent of oilseeds are sold in the villages or village markets[2] in the Punjab. For the United Provinces the respective figures are 80 per cent of wheat, 40 per cent of cotton, 75 per cent of oilseeds In Bihar, Orissa and Bengal 85 per cent of oilseeds and 90 per-cent of jute are sold in the villages. "The proportion of produce sold in the markets diminishes as cultivators are debt-ridden or carry on subsistence farming in tiny holdings." The proportion of produce sold in the outside markets is much less where the means of communication and transport are not adequately developed.

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[1] Hussain,—*Marketing of Agricultural Produce in Northern India*, p. 96.

[2] Village markets are of two types. (i) Periodical markets in rural areas. These can be bi-weekly or fortnightly markets where small itinerant dealers are able to collect agricultural produce. (ii) Big fairs held periodically associated with certain religious celebrations.

The produce that is sold in the village (apart from the portion that is directly sold to non-agriculturist consumers living in the same village), is sold to various middlemen through whom it ultimately reaches the larger markets and distant consuming centres. These middlemen may be the village banias who combine money-lending with shopkeeping or itinerant[1] "beoparis" either purchasing on their own account or as agents of some *arhtiya* in a secondary town market. But where the money-lender has his grip over the peasant, the latter is not a free agent to dispose of his produce as he likes. The debtor usually has to sell it to his creditor on the latter's terms. In any case when the produce is sold in the village, as the Agricultural Commission pointed out, the cultivator obtains much less favourable terms than he would do if he carted it to the market, however, badly organized the latter may be. But to take it to the market he requires means of carting and good roads.

(ii) *Transportation to markets.* "Communications are often extremely poor and defective They not only add to the cost of transportation but also lead to the multiplication of small dealers and intermediaries. They also restrict markets by hindering cheap and rapid movement of agricultural produce."[2] The difficulties are greater in hill districts where the cultivator is often at the mercy of the grain dealer who alone can command enough animal power to undertake the transport of produce. Sometimes transport alone absorbs [illegible]0 per cent of the price even where the wholesale dealer is within a radius of 15 miles of the village.[3]

The produce is generally carried to the market in bullock or camel carts, or on pack animals. Different methods are used in different localities. River transport has declined, but is still of considerable importance in Bengal and Assam as well as in the coastal plains of South India. In Northern India the cart and pack animals are predominantly used.

(iii) *Sale in the market.* Such markets may be either organized or unorganized. The unorganized markets are more or less of a primitive character. There are no set customs or rules of procedure for sales and settlement of accounts. There are no permanent functionaries. They are small mandis in which there may be an *arhtiya* but he is hardly a wholesale dealer. He is rather the primary distributor who simply passes on the produce to the bigger *arhtiya* in the larger mandi. He is often financed by the latter.

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[1] Itinerant middlemen go under different names in the various provinces: Beoparis in the Punjab, Banjaras in the C. P., etc.

[2] Mukerjee—*Economic Problems of Modern India*, Vol. I, p. 295.

[3] Nanavati and Anjaria—*Indian Rural Problem*, p. 36.

Organized markets have developed in localities where staple products like wheat, cotton, sugarcane and jute are largely grown. In such places specialization in crops has taken place and cultivation is governed by the prevailing prices in distant markets. This is especially the case in areas where transport facilities are present. "In these bigger mandis the wholesale *arhtiya* makes his appearance and facilitates grain transactions. He often supplies capital to the village bania or beopari on the stipulation that the produce of the neighbourhood would reach him regularly at harvest time. He also acts as a commission agent of shroffs and big exporting firms in the cities, thus forming an indispensable link in the chain of middlemen between the cultivator and the shipper-buyer."[1]

The wholesale *arhtiya* in the market is also known as *pacca arhtiya*. He should be distinguished from the *kachha arhtiya*. The *kachha arhtiya* acts as a commission agent for all sellers in the country-side including cultivators, village banias and beoparis and other itinerant carriers. The small mandi-dealers also often dispose of their produce through him. The *pacca arhtiya* never deals directly with the cultivator seller. In addition to the *arhtiyas*, there are other intermediaries called the "dalals" (brokers).

The transactions in the market take place in the following manner : "The beopari or the seller entrusts his goods to an *arhtiya* or dalal' dealing on behalf of a purchaser. Both the *arhtiyas* put their hands under a piece of cloth, towel, or handkerchief and start catching one another's fingers under the same. The bargaining is usually in terms of annas, as there is generally no dispute about the rupee part of the price. The negotiations go on in this secret manner till they are called off owing to failure in arriving at an agreement or a price is settled, and then the seller is informed of the price agreed upon."[2] This is the usual practice. In some cases produce is sold by open auction. In a very few mandis there are also co-operative shops which take the place of the *kachha arhtiya*.

As soon as the deal is effected, the *kachha arhtiya* pays cash to the seller, though usually he does not get the purchase price from the buyer (*pacca arhtiya*) at once. Through the *arhtiyas* the produce is passed on to the retailers for home consumption, to the mills for manufacturing purpose and to the exporters for external trade.

4. Defects of the Present System The main defects of the present system of marketing in India are : (*a*) Indifferent quality of the produce sold (*b*) Inadequate facilities of transport and communication. (*c*) Multiplicity of intermediaries. (*d*) Lack of storage and warehousing facilities. (*e*) Fraudulent practices in the markets. We shall now discuss each of these defects and steps taken to remedy them.

(*a*) *Indifferent quality of the produce.* The Indian produce does not enjoy good reputation in foreign markets, though things have improved in recent years. The low quality of the produce is due to a number of causes. (*i*) Indifferently selected seed. (*ii*) Natural calamities affecting the crops while growing, like too much or too little rain, pests and diseases, etc. (*iii*) Primitive methods of harvesting, which result in mixture of dirt and stones with the grains. (*iv*) Lack of proper storage facilities in the village, which results in deterioration through exposure to rain, dirt and rats. (*v*) Deliberate adulteration and damping, etc. (*vi*) Lack of standardization and grading of produce.

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[1] Ibid, op. cit.

[2] Hussain op. cit., p. 103.

The Agricultural Departments have done useful work in introducing improved varieties of seed, though a very large field has yet to be covered in this connection. Some work also has been done to tackle the problem of pests and diseases. The methods of harvesting, however, remain as defective as ever and unless mechanization is introduced on a large scale they will remain the same. Storage facilities can be introduced either by Government or co-operative effort, but little has been done so far. The trouble is that the cultivator cannot store produce for a long time, due to his financial weakness and hence the trouble of constructing elaborate means of storage does not attract him. Deterioration of quality is partly due to pure dishonesty, but partly because the standards fixed for exports are low and better quality does not command better prices. The seller, therefore, reduces better quality products to the given standard. We have already discussed in Chapter VII the steps taken to check adulteration of cotton. Legislation on similar lines, suited to circumstance of the commodities in each case, should go a long way to prevent deterioration of other agricultural products Measures against adulteration of food do exist in various local areas, but they have not proved very effective ; moreover, they only aim at protecting the home consumer.

(*b*) *Grading and Marking*. As regards grading and standardization, definite work is being done since the passing of the Agricultural Produce (Grading and Marking) Act of 1937. Under this Act, licences are issued to reliable merchants authorizing them to grade agricultural produce under the close supervision of the marketing staff appointed by the Government. Such produce is then placed in the market under the label and seal of "AGMARK." At first grapes, oranges, tobacco, eggs, hides and skins were graded in this way. Later on other commodities like ghee, atta, rice, apples and lac were added to the list and more can be added as need arises. During 1946 over Rs. 12 crores worth of produce was sold under the Agmark as compared with Rs. 1·5 crores in 1941. Ghee and tobacco were the most popular.[1]

(*c*) *Transport facilities*. "In spite of the developments of the last half century," wrote the Royal Agricultural Commission, "India must still be regarded as a backward country in respect both of railways and roads. There are only 2 [illegible] miles of railway line per 100 square miles of area in India as compared with 22.7, and 8·3 miles respectively in Great Britain and the U.S.A. Moreover the freight rates in India discourage the transportation of agricultural produce, which usually has small value with a large bulk. A more sympathetic freight policy, cold storage facilities, introduction of standard containers for small parcels and packages, can considerably enhance their utility.

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[1] Indian Year Book, 1948, p. 614.

India is backward in respect of roads, too, as compared with other countries. There are only 18 miles of roads per 100 square miles in India as compared with 200 in Great Britain and 100 in the U.S.A. The unmetalled roads and village tracks are dusty and uneven in summer and muddy swamps in the rainy season. No wonder the villager prefers selling his produce in the village. A proper co-ordination of road and railway services is necessary to avoid wasteful competition. Waterways were neglected under the British. Water transport is cheaper and there are great possibilities in India It should be revived wherever possible.

(*d*) *Marketing intelligence.* A beginning has been made for the supply of marketing news. Daily market prices of some commodities are broadcast from A.I R. stations, but the number of receiving stations is not adequate. The peasant is uneducated. Weights and measures are not uniform. The Marketing Staff should collect prices from "key markets" and disseminate them to smaller country markets and to producers in rural areas.

(*e*) *Multiplicity of intermediaries.* There is a large number of intermediaries between the cultivator and the consumer of the produce. For instance, we have seen that between the cultivator and the consumer come in Beopari, Kachha Arhtiya, Dalal, Pacca Arhtiya, Wholesaler and Retailer

There may be even more links in practice. Each of them gets some money as his reward. Are these all indispensable ? If some of those links could be eliminated, the marketing expenses could be reduced to benefit both the producer and the consumer. Some of them are clearly superfluous, *e.g.*, the *dalal*. If the cultivator takes the produce to the market himself the beopari can also be eliminated. The *kachha arhtiya* can be displaced by the co-operative shop but cannot be dispensed with. The *pacca arhtiya* and the wholesaler even now are frequently one person. By marketing through the village co-operative sales society, the consumer may be approached directly. It is, however, impossible to develop co operative marketing to such an extent as to carry on the marketing of all rural goods in India without the support of the middleman. Hence such reforms should be introduced with care. The Agricultural Commission sounded a note of warning in this connection : "We deprecate easy generalities suggesting that every ill from which the cultivator suffers is traceable to the existence of hordes of rapacious and unnecessary middlemen. Such statements disturb confidence, while distracting attention from faults in the system of marketing which are capable of being remedied or removed." According to the

Commission, "The most effective means of removing unnecessary middlemen are the provision of good roads and the establishment of a sufficient number of well-regulated markets easy of access to the cultivator."

According to another authority, "in the present unorganized system of credit and marketing the itinerant beopari is a necessity, and he could not be condemned off-hand.[1] No doubt with better roads and modes of transport and improved organization, there will be fewer middlemen than at present who should appropriate a portion of the meagre profit of the small holders. Thus the arhtiya will gradually supersede the village beopari, carrier or bania and the shroff or the exporting firm will supersede the arhtiya, or again the cultivators themselves by co-operative organization may abolish, as they are doing in some countries in the West, entire chain of middlemen, village buyers, brokers, arhtiyas as well as the urban shroffs, who are now indispensable in agricultural marketing."

(*f*) *Storage and warehousing facilities.* Due to the lack of financial reserves the cultivator sells his produce within a month or so of harvesting it. The only produce that he stores for any length of time is wha the keeps for his family consumption or for seed. He, therefore, does not think worth his while undertaking expenditure on expensive storage structures. He stores grain largely in huge earthen containers, in pots and sacks or underground in *khattis* or pits where water level is not high. Underground storage exposes the produce to white ants, rats and dampness. In larger markets agricultural produce is stored in *kothas* and *khattis*. Such produce may be sold several times before it is finally taken out. Against it (in larger mandis) advances are offered by shroffs and joint stock banks. But even in larger markets grain is not stored for longer than about eight months. To hold stock for longer periods, the means of storage should be better than the *khattis* and the *kothas*. In that case the practice of getting advances from the bank against the security of stored produce will become more widely prevalent than it is now. It is necessary therefore to have properly constructed warehouses at the more important mandis and railway stations. For such construction Government assistance and initiative are necessary. In the villages, godowns may be constructed by co-operative societies to give facilities for storage to the members. The co-operative society can combine the function of marketing finance with the provision of storage facilities.

(*g*) ***Fraudulent practices in the markets.*** Another defect of the present system is the existence of a number of practices, even in well-organized markets, which defraud the cultivator seller of a part of his sale price. Some of these practices are: (*i*) The arhtiya and the dalal acting for both buyer and seller; (*ii*) settlement of price under cover; (*iii*) false weighments and (*iv*) a variety of charges.

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[1] Mukherjee, op. cit, p. 306 and 324

(*i*) *Some agents act for buyers and sellers both and are called kachha-pacca arhtiya.* In some cases the same person acts as a dalal for both parties, getting commission from both sides. Under such conditions, the interests of the cultivator are bound to suffer.

(*ii*) *Settlement of price under cover.* We have seen how the *arhtiyas* representing the buyer and the seller negotiate the price. The cultivator is kept in the dark until after the settlement of the price. Naturally this does not inspire confidence in the peasant especially when both the *arhtiyas* belong to the mandi. Moreover this method is open to abuses. Price should be settled openly.

(*iii*) *False weighments.* There is a large variety of weights and measures prevalent in the country. In the same market sometimes two sets of weights are used, one for buying and another for selling. A number of Acts were passed at different times in different provinces to standardize weights and measures. The evil, however, did not disappear. A Standard of Weight Bill was passed by the Central Legislature in 1939. This will enable the provinces to introduce uniform weights and measures prescribed by the Act. This will certainly lead to more extensive and smoother marketing of the produce from which both the producer and the consumer (as well as the middlemen) are bound to derive benefit. In the large markets weigh-bridges should be established over which first the loaded and then unloaded cart of the cultivator may be passed thus checking the weighment done by the market weighmen. This will act as a check on the malpractices of the weighmen and will be a source of satisfaction to the cultivator-seller.

(*iv*) *Market charges.* One of the greatest scandals of the present day marketing in India is the multiplicity of charges levied on the seller of the produce. The total amount of such charges for wheat varies between Re. 1-7-2 (paid by the seller) in East Punjab to Rs. 3-4-8 in the U. P. and Rs. 3/12/2 in the C. P. The buyer pays Re. 1/10/3, Re. 1-2-8 and As. 5/8 in the same provinces per hundred rupees.

The charge is high and in almost every case the seller pays more than the buyer.

These charges are the sum total of a large number of items such as commission, cooliage, weighment, tips to buyer's servant and apprentice, charity for temple and Gaoshala and various miscellaneous items. The seller can save about 50% of these charges if he sells through the co-operative commission shop because a good many of the charges are unreasonable impositions. Why should the seller pay to the buyer's servant, his apprentice, his dalal and his charitable activities ? It is necessary that superfluous charges be made illegal and other charges be made uniform. Attempts have been made to achieve this object in the regulated markets.

The peasant has to pay another set of charges like octroi duties, terminal taxes and tolls. According to the Wheat Report these amount sometimes to 4 or 5 per cent of the value of the produce.

"In theory of course," says the Report, "the octroi duty should be payable by the consumers in the town in the form of enhanced prices, but owing to the fact that they are in the first instance paid by the cultivator-seller, who has no alternative but let the charges come altogether out of his pocket." The octroi duties paid to the municipalities come to no less than Rs 1·5 crores in a year.

The Wheat Report in fact contends that even the charges levied on the buyer in the first instance are shifted on to the seller by forces of competition, through reduction in price paid to him. "The cultivator is willynilly compelled to pay for the upkeep of municipal roads and other amenities of the town through octroi and similar duties. He also pays in many cases for educating the urban children and for maintaining other charitable institutions from which he himself derives no direct benefit.

5. Regulated Markets. Mainly two great reforms are usually suggested to save the cultivator from the oppressions of the present system. One is the establishment, all over the country, of regulated markets on the Berar and Bombay model, and the other is the marketing of produce through the cultivator's own co operative societies formed for this purpose. We shall now consider these two proposals which have already to some extent been put into practice.

Regulated markets date in India from 1897 when the Berar Cotton and Grain Market Law was passed. The Agricultural Commission recommended establishment of similar markets for other areas and other commodities. Bombay modelled its Cotton Markets Act of 1927 on the Berar Law with some improvements. This latter was repealed following the enactment in 1930 of a more comprehensive law - the Bombay Agricultural Produce Markets Act. Similar laws have been passed in Hyderabad State (1930), Madras (1933), Central Provinces (1935), Mysore (1939), and Punjab (1939). In essentials all these laws resemble each other. A few words may be said about the Punjab Agricultural Produce Markets Act, 1939.

The main features of these Acts are as follows :—

(*a*) A Market Committee will be set up in each market area to ensure honest dealings between buyers and sellers and to generally administer the market. The Committee will represent the various interests—the growers, commission agents, traders, etc. Members will "be selected by the Government from among the prescribed panel of names submitted by the non-official members of the district board of the district in which the market area is situated and by the traders in the market."

(*b*) The Market Committee will standardize the various market practices and charges ; keep standard weights ; see that the same broker does not represent both buyer and seller; and perform similar other functions ensuring fair play in dealings. In cases of dispute, the Committee will provide arbitration facilities.

(*c*) The Act provides for the licensing of brokers and weighmen and prescribes penalties for breach of law.

This guarantee of fair play for the peasant in the market is bound to encourage him to take his produce for sale there.

Market regulation results in many benefits which may be summarized as below :—

(*i*) The cultivator can directly negotiate with buyers.

(*ii*) Latest information about prices, supplies and trends can be supplied.

(*iii*) The net incidence of charges is reduced.

(*iv*) Sales are effected openly or by auction.

(*v*) Facilities like sheds for cattle, godowns, water, etc. can be provided from the market fund.

(*vi*) Scales, measures and weights can be properly controlled.

(*vii*) All functionaries are registered, licensed and controlled.

(*viii*) Grading and standardization can be introduced and popularized.

(*ix*) The cultivators using the market can be educated in sanitation and thrift, and can be persuaded to grow better type and variety of crops.

6. **Co-operative Marketing.** In theory a multitude of advantages are claimed for co-operative marketing such as improved marketability of goods, possibilities of developing markets, stabilizing of production, controlling the flow of supplies, increased bargaining power of growers, reduced costs, more efficient service, more finances for marketing and producing crops and so on.

Co-operative marketing has met with great success in Europe and America. In India beginnings have already been made in several provinces. Co-operative Marketing Societies have achieved remarkable success in Bombay, Madras and the U.P.[1] The Bombay Provincial Co-operative Marketing Society (1941) co-ordinates the activities of individual societies as well as provides a central agency for marketing of members' products. It has incidentally done a very useful work by distributing rationed articles. The sales of these societies rose from Rs. 80 lakhs in 1939 40 to Rs. 4,18 lakhs in 1945-46. In Madras in almost all districts credit and marketing have been linked together and central marketing societies formed to provide a co-ordinating agency to collect and sell on a large scale. In 1947 the Provincial Government formulated a five-year plan to establish a co-operative society at every Taluk centre to construct large numbers of godowns and to establish marketing federation for purposes of co-ordination. The U.P. has also achieved remarkable progress in the development of co-operative marketing mainly of cereals, ghee, oil-seeds and sugarcane.

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[1] *Review of the Co-operative Movement* 1939-46 op. cit. pp. 15-22.

This encouraging experience in the expansion of co-operative marketing and the intrinsic need for this organization have resulted in plans for its large-scale post-war development. Committees and authorities have stressed the need to link together co-operative marketing, finance and consumers' societies. Licensed warehouses are recommended to enable storage of produce and to facilitate the creation of the negotiable short-term bills to finance marketing. Co-operatives Societies as constituted at present cannot be expected to carry on all the functions of middlemen. Therefore, we should not try to oust him entirely but to harness him usefully.

The new marketing organization established by the Central and Provincial Governments is expected to stimulate co-operative marketing.

7. The New Marketing Organization. The Agricultural Commission recommended the appointment of expert marketing officers and carrying out of marketing surveys of various commodities. The Government, however, delayed the matter due to financial stringency until in April 1934, Mr. A.M. Livingstone was appointed Agricultural Marketing Adviser to the Imperial Council of Agricultural Research. The Provincial Economic Conference of April 1934, also agreed on the development of marketing facilities and recommended action on the following lines : (*i*) Propaganda and supply of information in external markets regarding Indian products ; (*ii*) the grading, storing and bulking of the main staple products, special market organization for perishable commodities ; (*iii*) information to India's producers of consumers' requirements both in India and abroad; (*iv*) the planning of production on basis of quality and demand ; (*v*) the establishment and development of regulated markets ; (*vi*) the undertaking of market surveys for the purpose of developing a common plan throughout India; and (*vii*) the establishment of properly organized "future" markets, commodity exchanges and warehouses.

In 1939, the Government of India outlined a policy on the lines recommended by the conference to be carried out in collaboration with the provinces and the States through the agency of a Provincial and Central Marketing staff. The central staff consists of one Agricultural Marketing Adviser, three Senior Marketing Officers, three Marketing Officers, one Supervising Officer for experimental grading and packing stations and twelve Assistant Marketing Officers. The Provincial Staff include a Chief Marketing Officer and Assistant Marketing Officers. The work falls into three divisions: (*i*) Investigation, (*ii*) development and (*iii*) grading Investigation work includes marketing surveys of important commodities, problems of regulated markets, transportation, storage, etc. Development work will mostly depend upon the results of surveys. It means keeping the producer and trader in touch with consumers' requirements and popularization of standard grades and containers. The work of grading is technical and relates to the chemical and physical properties of products to be graded, like oil-seeds, grains, fruits, etc.

8. The New Organization's Achievements. The new marketing organization has done good work since its establishment. Its achievements are summarized below.

(*i*) Marketing surveys of many commodities have been accomplished and reports of such surveys have been published. The chief commodities surveyed are : rice, wheat, linseed, groundnuts, tobacco, coffee, fruits, milk, eggs, livestock, hides and skins, etc.

(*ii*) The surveys revealed the necessity for grading due to mixing of qualities. To this end the Agricultural Produce (Grading and Marketing) Act was passed in February, 1937. We have already noted the work done under this Act. As a result of grading, all goods, specially perishable goods (eggs, fruits, etc.), secure better prices than before.

(*iii*) Progress has also been made with respect to standardization of contract terms (for white wheat, linseed and groundnuts) thus widening their marketing field.

(*iv*) Finally, arrangements have been made for a market news service. This is done by weekly broadcasts from A.I.R. regarding prices, stocks and movements of certain staple commodities. Daily closing rates are also broadcast in the rural programme.

9. Stabilization of Agricultural Prices. No amount of improvements in the marketing organization can help the cultivator unless he is ensured remunerative prices for his products. The main objectives of stabilization of agricultural prices are :—

(*a*) Prevention of extreme fluctuations such as have occurred during the last two decades—extremely low prices during the depression and very high prices during the war.

(*b*) Assuring the agricultural producer a better standard o living than he enjoyed before the war.

(*c*) Providing an incentive for improved agricultural production.

The necessity of price stabilization of agricultural commodities has been recognized by the United Nations Organization and schemes of commodity agreements to this end are a part of the newly proposed International Trade Organization.

The Bengal Famine Commission in India also recommended a policy of price stabilization. In their view "the hard core of the problem of stabilization of agricultural prices generally is the stabilization of the price of rice and wheat."[1] This is because (*i*) 80% of the land in India is under food crops and almost half of the land under food crops is under rice and wheat alone. (*ii*) Food prices generally represent the most important element in the cost of living of the non-agricultural masses. The policy of stabilization of prices involves the creation of machinery to enforce fixed prices. The following steps are necessary for such a policy :

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[1] Final Report, p. 289.

(*i*) Determination of the level at which the prices of particular commodities have to be stabilized. This level is usually a range between a selected maximum and minimum levels. The level selected should be such as is fair both to the producer and to the consumer.

(*ii*) Maintenance of stocks by the Government. This involves machinery of procurement of such stocks. This may be done through ordinary trade channels or by Government employees directly. The stocks should be enough to enable the Government to supply the commodity to the market at the minimum price fixed by it.

(*iii*) The Government should maintain the price within the fixed range by buying and selling the commodity at maximum and minimum prices respectively as the need may arise. Private trading should be permitted only within this range.

If the price tends to fall below the fixed minimum it should be pushed up by (*a*) stimulating exports or (*b*) by Government purchases. If the price tends to rise above the maximum the Government should (*a*) prohibit exports and (*b*) release their own stocks at prices lower than the maximum.

For success, the policy of price stabilization should be under the control and direction of the Central Government.

CHAPTER XI

RURAL FINANCE AND INDEBTEDNESS

1. Introduction. Sir F A. Nicholson wrote in his famous Report on Land and Agricultural Banks in 1895 : "The lesson of universal history is that an essential of agriculture is credit. Neither the condition of the country, nor the nature of the land tenure, nor the position of agriculture affects the one great fact, that the agriculturist must borrow." Every modern business is run on credit. Agriculture, however, gives rise to certain peculiar problems of finance because of its uncertainties, its small unit of production, scattered nature of its operation and the conservative character of the peasants. These characteristics are more prominent in India due to the illiteracy of the peasant, and his lack of forethought. This accounts for the fact that the problem of rural finance in India has become primarily the problem of getting rid of rural "indebtedness." No doubt our cultivator does need money to make improvements in land, to replace implements and to purchase seeds, manures, and especially cattle. Actually the capital invested in his farm is very small[1] indeed. Most of his indebtedness is due to unproductive[2] expenditure in the past. Unproductive expenditure is not necessarily unjustifiable expenditure but it is unproductive all the same. Money borrowed for purely productive purposes, (*e.g.*, sinking of wells, buying improved seed, constructing embankments, etc.) does not in the long run lead to indebtedness. The problem of rural finance, therefore, must be faced from three points of view :

(*a*) Reduction and, if possible, elimination of the existing burden of debt. (*b*) Discouragement of future unproductive borrowing. (*c*) Encouragement of productive borrowing.

Our study therefore will follow three lines of investigation :

(*i*) The needs of the peasant for credit and how these have been met so far ; (*ii*) the causes of indebtedness and its magnitude; (*iii*) remedies adopted so far and future programme.

2. Legitimate Needs of the Peasant for Credit. The peasant requires three types of credit to carry on cultivation :—

(*a*) Long-term credit for permanent improvements like the construction of wells, tanks, bunds and embankments, digging of channels to divert water, terracing of hill-sides, clearing of jungles, drainage, reclamation, fencing, etc. The larger irrigation works are constructed by the State. Money required for minor works is usually provided by the cultivator himself from his own savings or from funds raised by borrowing, but the State encourages such improvements by the grant of loans at low rates of interest.[1]

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[1] Roughly Rs. 30 per acre is considered sufficient capital in the Punjab —a comparatively prosperous province in Agriculture, £15 is required in Britain : Trevaskis "*The Punjab Today* Vol. ii p. 323.

[2] According to the Provincial Banking Enquiry Committee, 70 per cent of the debt in the United Provinces, Bengal and Bombay and 60 per cent in Madras were contracted for unproductive purposes.

(*b*) *Intermediate Credit* is required for the purchase of expensive implements, cattle and erection of buildings.

(*c*) *Short-term credit*. In addition, the agriculturist requires money for financing his current requirements, like the purchase of seed, fertilizers, feeding-stuff, etc.

3. Sources of Credit or Agencies of Finance. At the present time the agriculturist is financed by the following agencies:—

(*i*) The village money-lender, professional or non-professional.
(*ii*) The indigenous banker acting through intermediaries.
(*iii*) Commercial or joint stock banks. They provide finance indirectly through intermediaries of various kinds
(*iv*) The Government.
(*v*) Co-operative Credit Societies.
(*vi*) Land Mortgage Banks.[2]

Of these we need take notice only of the village money-lender, the Government Co-operative Societies and land mortgage banks, as the cultivators have no direct relations with the others. We shall discuss the last two in the next chapter. Here we shall deal with the first two only.

(*i*) *Government as Financial Agency.* Attention may be drawn to two Acts which were passed during the 19th century under which credit is supplied by the Government to the agriculturist. They are:

1. Land Improvement Act of 1883 which provides for supply of long-term credit for permanent improvements on land like wells and embankments.

2. Agriculturists' Loans Act of 1884, under which short-term loans are given for agricultural needs like purchase of seed, implements, manure and cattle. These loans have greatly helped the agriculturists, especially during periods of calamities, like famines.

The scope of these measures, however, is limited. The Central Banking Enquiry Committee gave figures to show "the very insignificant part played by the Government in the matter of supplying rural finance."[3]

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[1] Agricultural Commission Report, p. 416.

[2] Land mortgage banks may be organized on the Co-operative or the joint stock principles.

[3] On the average about Rs. 95 lakhs are granted every year: Rs. 35 lakhs under the Land Improvements Act and Rs. 60 lakhs under the Agriculture Loans. (Nanavati and Anjaria—op. cit., p. 170).

The *taccavi* loans, as the loans given under these Acts are popularly called, have not been very popular for several reasons. In the first place they are given only for specific purposes while the money-lender gives loan for any purpose. The cultivator prefers the latter unless he is very hard-pressed. Secondly, these loans are secured after a good deal of delay and only after some subordinate officials have been bribed. Thirdly, the method of collection is too rigid and mechanical. Finally, the facilities available and the procedure to be followed are not well known to the peasant.

Recently some provinces have passed amending Acts to enlarge the scope of these measures. Madras passed such an Act in 1935 and the U. P. in 1934 to permit loans for redemption of old debts under the Land Improvement Act of 1883.

(*ii*) *The Villager Money-lender.* By far the most important source of agricultural credit is the village money-lender. There are two classes of such money-lenders. The more common is the professional money-lender who is also a trader. On the basis of 1931 census there were between 2½ to 3 million such money-lenders in India. The other is the non-professional money-lender who is in most cases a landlord. Due to restrictive legislation against the former the latter is becoming prominent in some provinces.

A hundred years back the money-lender was very useful. He lent money but the traditional rule of *Damdupat* did not allow him to receive back more than double the sum lent. There was no question of attaching land, houses or cattle for failure to repay loans. Since the advent of the British and their civil law the money-lender has been exploiting the peasant and appropriating his land.

The village money-lender has become an indispensable feature of Indian rural economy. His popularity is due to various reasons. As was pointed out by the Central Banking Enquiry Committee : "He is easily accessible. His methods of business are simple and elastic. He maintains a close personal contact with the borrower, often having hereditary relations with the family of the borrower. His local knowledge and experience and his presence on the spot enables him to accommodate persons without tangible assets and yet protect himself against losses." He not only supplies funds for agricultural purposes but also for domestic needs. Thu he supplies credit for productive as well as unproductive purposes, for short-term as well as long-term needs. "The money-lender," wrote the Royal Commission on Agriculture, "recognizes no distinction between the capital required to finance an industry and the money needed for ordinary household expenditure. Every thing goes down in a common account."[1] This indiscriminate lending besides, resulting in improvidence, leads to other evils, which according to Bengal Commission, are that "the rates are still high in many parts of the country; secondly, that the professional money-lender tends to abuse his influence over the debtor, particularly in order to secure possession of the latter's saleable produce at a low price, and similarly the non-professional money-lender often advances money with a view to eventual acquisition of the debtors' land."[1]

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[1] Agricultural Commission Report, p. 417.

There are various malpractices associated with private money-lending. They are much less common today though they still exist. The money-lenders obtain bonds on false pretences; enter in them sums larger than agreed upon; deduct extortionate premiums; give no receipt for payments and then deny them; credit produce at fraudulent prices; retain liquidated bonds for sums not advanced; charge interest unstipulated for, and commit a score of other rogueries—these are facts proved by evidence."[2]

The defects of the system are not wholly due to the avarice of the lender. It has endured in spite of its defects. That the money-lender has not been eliminated in spite of all efforts, shows that Indian rural economy in its present organization cannot do without the village money-lender. "We think it inevitable," writes the Bengal Famine Commission, "that the private money-lender will continue, for a long time to come, to be the main agency for the distribution of rural credit. Policy in relation to rural credit must be based on the acceptance of this fact, as well as on the recognition of the need for improving the working of the system."[3]

4. **Magnitude of Rural Indebtedness.** Estimates have been made on the basis of local enquiries undertaken from time to time as to the extent of agricultural indebtedness in India. One of the earliest enquiries was in 1875 by the Deccan Ryots Commission in twelve villages in Bombay. The Commission found that ⅓ of the occupants were involved in debt which was about 18 times the revenue assessment. In 1880 the Famine Commission expressed the view that ⅓ of the land-holding classes in India were deeply in debt. Sir F. Nicholson in 1895 estimated the total rural debt of Madras at Rs. 45 crores and on this basis, Sir Edward Maclagan estimated that in 1911 the total rural debt in British India was Rs. 300 crores.

The next important enquiry was that of Mr. (now Sir) M. L. Darling, I.C.S. He based his calculations on the data relating to 53,308 members of 2,106 co-operative societies in the Punjab in 1918-19. He concluded that the total agricultural debt of the province was Rs. 90 crores, that it averaged Rs 31 per cultivated acre, Rs. 76 per head of the agriculturist population and that it was at least 19 times the land revenue demand.

The average debt per indebted proprietor was Rs. 463, but per indebted tenant it was only Rs. 150. On the basis of the Punjab figures, Mr. Darling calculated that the total agricultural debt of British India (including Burma) was not less than Rs. 600 crores.[4]

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1. Final Report op cit., p 214.

2 & 3 Bengal Famine Commission Report, p. 294.

4. Darling—*Punjab Peasant in Prosperity and Debt*, pp. 20-21.

Authoritative estimates made by the various Provincial Banking Enquiry Committees in 1930 are tabulated below :—

Province	Total debt	Average per agriculturist	Value of principal crops, 1928-29.
	Rs. Crores	Rs.	Rs. Crores
Madras	150	50	180·7
Bombay	81	49	120·5
Bengal	100	31	232·5
U. P.	124	36	140·5
C. P.	36	30	68·7
Punjab	135	92	76·7
Bihar and Orissa	155	31	135·7
Assam	22	31	...
Total	803		955·3

In the Punjab, debt is the biggest per agriculturist and is almost double the value of principal crops on the basis of 1928-29 prices. During the depression the prices fell by about 50 per cent. Hence the burden of rural debt in India, even assuming that no new debt was incurred, must have doubled. Dr. Mukherjee estimated it to be Rs. 1,200 crores in 1935 and Mr. E. V. S. Mainam's[1] estimate put it at Rs. 1,800 crores. According to Dr. P. J. Thomas[2] even by 1933, the real burden must have reached Rs. 2,200 crores. In recent years prices of agricultural products have advanced considerably. The burden of debt may have decreased. But the rise in prices has mostly benefited the larger landlords who have surpluses to sell. The ordinary peasant has suffered more from inflation than he has gained. The Bengal Famine Commission were also of the same opinion. They concluded in 1945 that small holders as a class had not gained materially. Of course those who supplemented their income by other forms of labour benefited as wages were high. But as they had not much surplus to sell to pay back their debts and as the prices of the consumer goods they needed were high, as a class their debts would not have been reduced substantially.—Only extended enquiries could give a full picture of the total effects of high prices on rural indebtedness,[3] but the Reserve Bank holds that "the agricultural debtors were enabled to pay off their debts either out of their increased incomes or by the sale of a part of their lands....Thus not only were the overdues due to the banks and societies rapidly paid, but there were even instances of advance repayments in large numbers in many provinces."[4]

It is, however, not so much the amount of debt that is so serious as the fact that most of this was incurred for unproductive purposes. According to the Banking Enquiry Committees, the percentage of unproductive debt to total debt in the U.P., Bengal and Bombay was

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[1] "Essentials of Rural Development"—Paper contributed to the World Co-operators' Conference, 1938, p. 23.

[2] *Economic Problems of Modern India*, op. cit., p. 176.

[3] Final Report, p. 300.

[4] Review of the Co-operative Movement, 1939-46, op. cit., p. 29.

70 per cent and in Madras 60 per cent. According to Darling, only 5 per cent of the debt in the Punjab was incurred for land improvement.

5. Causes of Indebtedness. For a debt to arise the following conditions must be present :—

(*a*) Existence of borrowers with need to borrow and security to offer.

(*b*) Existence of lenders with capital to lend and willingness to lend. The willingness to lend depends upon (*i*) the security offered by the borrower and (*ii*) the existence of law and courts to which recourse may be had to realize the debt.

Though the peasant has always borrowed but his indebtedness was not a serious problem before the establishment of the British rule. This was because (*a*) there was little accumulation of capital to lend, (*b*) there was little surplus from which a loan could be repaid, (*c*) there was practically no security to offer and (*d*) there were no sure means of enforcing recovery against a recalcitrant borrower.

The advent of the British rule in due course changed all this. "The land far from being a burden entailing the satisfaction of a crushing State demand, became a valuable property ; improved communications opened up markets for the sale of surplus produce ; ...property of all kinds rose rapidly in value. Further the introduction of fixed laws and the general security following on the enforcement of order, rendered the land available as the ultimate security for loans. Another factor of great importance was the growth of a money economy and the increase of wealth as trade developed."[1] The new forces put the peasant entirely at the mercy of the money-lender. "By 1880," wrote Darling about the Punjab, " the unequal fight between the peasant-proprietor and the money-lender had ended in a crushing victory for the latter..... For the next thirty years the money-lender was at the zenith and multiplied and prospered exceedingly."[2]

Thus the advent of British rule increased the *opportunities* for borrowing and lending. The need to borrow always existed and has increased with the increased pressure on land. This need is not always economic. There are social needs too. These coupled with the peasant's extravagant habits have contributed to make the burden of debt more serious than it might have been.

We may now summarize the causes of indebtedness of the peasant. There are seven main reasons why the peasant-proprietor is obliged to borrow :—

1. The peasant *has* to borrow to carry on. His holding is an uneconomic unit. It is split up in fragments. More often than not he is at the mercy of Nature. Droughts and floods do not allow him to reap the reward of his labours. He has very few implements and

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1. Calvert op. cit., p. 248.
2. Darling—The *Punjab Peasant in Prosperity and Debt*, p. 280.

these are of a poor quality. He does not know the use of chemical manures and generally cannot afford them. He cannot live without borrowing.

2. His cattle are mere bags of skin and bone. There is not enough food to fatten them. They die in numbers from drought and disease. As the peasant has no resources to fall back on, he is compelled to resort to the money-lender.

3. His ingrained improvidence, the effects of which are greatly aggravated by insecurity of crops The peasant is very fond of litigation. Mr. Tarlok Singh carried out an enquiry in 38 representative villages in Hoshiarpur District of East Punjab in 1938 and found that out of every seven families two were engaged directly in litigation.[1] Thus litigation is an important cause of debt.

4. His extravagant expenditure upon marriage and other domestic ceremonies. This is rarely the nucleus of a peasant's indebtedness although it is a fairly important item in his total debt.

5. The vicious system of business of the money-lender which we have discussed at length.

6. The inflated values of land and its produce which tempt the peasant to borrow and the money-lender to lend.

7. Land revenue is quite a heavy sum for the *small* holder to pay. He has no cash resources. Very often, therefore, he is compelled to borrow to make the revenue payment, even though it averages only about Rs. 2 per acre against a debt of Rs. 81 to 92 per cultivated acre. It may not be a "primary cause of debt" but it certainly serves as an occasion for borrowing.

Mr. Thorburn found in 1896 that 12 per cent of the debt was borrowed to pay land revenue in the area of his enquiry in the Punjab. Punjab Co-operative Societies reports show that about 15 per cent of the money is advanced for the object of land revenue payment. Sir T. Hope, a Bombay Revenue Officer, declared in 1879 that "to our revenue system must in candour be ascribed some share in the indebtedness of the ryot."[2] A commission reporting in 1892 on the Deccan Agriculturists Relief Act wrote : "The rigidity of the present (land revenue) system is one of the main causes which lead the ryot of the Deccan into fresh debt."[3] Mr. Calvert is of the view that in the Punjab, in the earlier days of British administration when land revenue was rigidly fixed and realized, it was a reason which induced the cultivator to borrow. "From 1882 onwards," he adds, "successive steps have been taken to render the system more elastic and more adaptable to the variation in the harvest."[4] But still the system is open to criticism.

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[1] *Poverty and Social Change*, by T. Singh, I C.S., p. 174, 175 F. N.

[2] Ibid, p. 251.

[3] Quoted by Palme Dutt, op. cit. p. 206.

[4] Calvert, op. cit. p. 258.

We may, therefore, conclude that the land revenue system in India is one of the causes of indebtedness, though it may not be one of the most important ones.

6. **Results of Indebtedness.** Money borrowed for productive purposes results in increased prosperity. Such a loan is a blessing. Used for unproductive purposes, as most agricultural loans are, a loan is an everlasting curse, an ever-increasing burden, a permanent incubus and it leads to all kinds of evil consequences,—economic, social and moral.

(i) *Economic Consequences.* Indebtedness leads to agricultural inefficiency. When the cultivator finds that all his additional efforts merely fill the pockets of his creditor, he loses all interest in improving his position. Productivity of land thus decreases. If the debt brings about mortgage and sale of land, as it has done in all parts of the country,[1] it means an increase in tenant cultivators and landless labourers, which is certainly not conducive to improved cultivation. In the marketing of his produce also the peasant suffers if he is a debtor. He usually has to sell his produce to his creditor on the latter's terms. This means not only lower monetary returns, but it also acts as a barrier in the way of improving marketing methods through co-operative sales. No agricultural progress is possible for an indebted peasantry.

(ii) *Social Consequences.* Friction arises between the creditor and debtor classes. The increase of a landless class with no avenues of employment creates social discontent and political agitation. Communism finds a fertile ground in such conditions. Statistics show that landless labourers are on the increase in India. In 1921 they were 291 for every 1,000 ordinary cultivators, in 1931 their number increased to 407 per 1,000 cultivators.

(iii) *Moral Consequences.* These are the worst. The cultivator loses his ancestral property and in many cases, his economic freedom. In certain provinces cases of such servitude exist. In Bihar and Orissa Kamiauti[2] agreements and in Madras the Pannaiyal system, have created conditions of practical servitude for labourers. " In both cases," says Prof. P. J. Thomas, " a labourer borrows a small sum of money to celebrate a wedding or funeral, but in return he has to work for the lender, receiving a bare pittance for his livelihood. He can never be expected to save up the amount needed, and therefore the transaction becomes an indenture for life."[3] A similar system prevails in the Central Provinces.

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[1] In Bombay, the agriculturists lost nearly 5 million acres of land to the non-agriculturists between 1926 and 1937. This is illustrative of the tendency in all provinces. That is why land alienation laws had to be passed.

[2] Kamiauti agreements were declared illegal by an Act in 1920. " But it would appear," wrote the Agricultural Commission, "that the Kamia is too poor to set the law in motion and that the Act has proved ineffective." Report p. 435.

[3] *Mukherjee—Economic Problems of Modern India*, Vol. I, p. 172.

7. Measures of Relief. The problem can be attacked from two angles—settlement of old debts and control over new borrowing which involves creation of credit agencies for productive borrowing.

(1) *Settlement of Old Debts.* It is obvious that unless the crushing burden of existing debt (mostly ancestral) is reduced, there is no hope of any agricultural advancement. One remedy is to declare the debtor insolvent where his assets fall short of his liabilities. " No one desires to see a wholesale resort to insolvency," wrote the Royal Agricultural Commission, "and no one, we trust, desires to witness a continuation of a system under which innumerable people are born in debt, live in debt and die in debt, passing on their burden to those who follow."[1] The Central Banking Enquiry Committee agreed with this view and suggested certain special provisions in the proposed Rural Insolvency Act.

In some provinces legislation has been passed in recent years permitting declaration of insolvency under certain conditions and moratoriums, and liquidation and conciliation of debts in others. We shall discuss them one by one.

(*a*) *Moratorium.* Moratorium implies staying of proceedings in courts with regard to the recovery of debts. Grant of moratorium was one of the earliest measures taken by provincial Governments to protect the agriculturist debtors during the depression The idea was to prevent a rush of suits and a wholesale execution of decrees. Such measures to stay execution of decrees on debtors' properties and to prohibit evictions by landlords were adopted in the U.P. in 1932, in the C.P. in 1934 and in Bombay in 1938. In other provinces, too, Debt Relief Acts provided for staying proceedings in suits and decrees, if debtors applied for conciliation of debts. This indirectly meant grant of moratorium in respect of their loans.

(*b*) *Compulsory scaling down or liquidation.* Such measures are contained in the Madras Agriculturists Relief Act (1938); Central Provinces and Berar Relief of Indebtedness Act (1939); The Bombay Agricultural Debtors Relief Act (1939); The U. P. Agriculturist Debt Redemption Act (1939), and the Sind Agriculturists Relief Act, 1940. Some Indian States like Bhavnagar, Mysore andTravancore have also adopted similar measures.

The main objects of these Acts were :

(*i*) Reduction of outstanding debts so as not to exceed twice the original principal, less all payments received by the creditor in the past.

(*ii*) Reduction of arrears of interest on debts incurred during the period of depression.

(*iii*) Fixing of the rate of interest for subsequent years.

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[1] **Report,** pp. 440-41.

It is not possible here to describe, in any detail, the methods adopted in all the above legislative measures. Only their central ideas may be noted :—

The Madras Act was the most radical. It wiped out all arrears of interest outstanding on October 1, 1937 ; only the principal had to be paid. In future debts the rule of *damdupat*[1] was to be applied. The maximum legal rate of interest was fixed at 6¼ per cent but it could be altered by provincial Governments.

The C. P. and Berar Act provided for Debt Relief Courts in place of the Old Debt Conciliation Boards, and gave graded relief to the debtor based on the estimated fall in the value of land in respect of the principal of the debt.

The Bombay Act aimed at reducing indebtedness of genuine agriculturists, and provided compulsory scaling down of debts through Debt Adjustment Boards constituted for this purpose. These Boards work under Civil Courts. The reduced debt is to be paid by easy instalments.

According to the U.P. Act, the creditor is to be paid not more than twice the amount of the principal borrowed, minus all the payments received by him from the debtor in the past in connection with the transaction under consideration.

(c) *Debt Conciliation Legislation.* Conciliation involves voluntary settlement between the debtor and the creditor, with the help of specially constituted Conciliation Boards. Legislation in this connection is largely based on the recommendations of the Central Banking Enquiry Committee and was necessitated by the disastrous fall in agricultural prices during the Depression. The lead was given in this type of legislation by the C. P. which passed the Debt Conciliation Act in 1933. This was followed by the Punjab (Relief of Indebtedness Act, 1934), Bengal (Agricultural Debtors' Act, 1935), Assam (Debt Conciliation Act, 1935), Madras (Debt Conciliation Act, 1936) and Sind (Debt Conciliation Act, 1939).

Though differing in details all these measures have certain common features. They all provide for the establishment of Debt Conciliation Boards of from 3 to 9 members, representing debtors and creditors. The chairman is an officer of the Government. Their jurisdiction is sometimes limited e.g., in the Punjab, it is Rs. 10,000 Co-operative debts are excluded, but they can be included in the C. P. and Madras with the approval of Registrars of Co-operative Societies.

A debtor or any of his creditors may apply to the Board for the settlement of debts. Notice is then issued to every creditor to submit a statement of debts owed by the debtor in question. The parties then explain their case. In the Punjab and Assam lawyers are allowed, in the C. P. they are not. The Board can only apply persuasion except in Bengal where the Board can apply compulsion if necessary. After a settlement is reached, it is signed by the Board and registered. Instalments are then fixed with due regard to the paying capacity of the debtor. These usually range over a period of 15 to 20 years.

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[1] Under this principle the total liability of the debtor is not allowed to exceed double the sum borrowed i.e., total interest paid cannot exceed the total principal borrowed.

Repayment of the conciliated debt is the crux of the whole problem. It is necessary, therefore, to devise suitable modes of payment. Government is not in a position to shoulder the responsibility. Land Mortgage Banks run on co-operative lines seem to be the best agency for this purpose. Such banks have already been established and are doing good work in the C.P. and Madras. Through conciliation, debts have been considerably reduced in the Central Provinces, the Punjab, Bengal and Assam. As a result of the scaling down of debts and higher prices in war years, advance and payments of loans previously taken became a common feature. Many defects have been, however, discovered in the working of these Acts. They exclude certain classes of debts like rent debts, co-operative debts, trade debts, etc. Illiterate debtors sometimes fail to give the names of all their creditors to whom notice cannot be sent. Then there are fraudulent practices like false transfers and bogus mortgage deeds which hamper settlement. There is no provision in most Acts for settling debts of individual debtors in case of joint debts unless all the debtors apply. Members of the Boards are sometimes corrupt and inefficient. Such defects should be eradicated.

(2) *Regulation and Control of New Borrowing*. The second approach to the problem of indebtedness is to create conditions under which unproductive borrowing is discouraged. This means that the borrower should be educated so as to acquire a greater sense of responsibility and foresight. This can be done by intensive propaganda and gradual spread of primary education. Village Panchayats can do a great deal in this connection.

But mere persuasion of this kind may take long to produce results. The peasant must be saved from himself. This can partly be accomplished by measures to limit his credit. We have seen that borrowing increased after land became valuable, and offered greater security to the lender. Credit can be reduced, therefore, by putting limitations on the transfer of rights in land. Besides, the temptation of the money-lender to lend can be reduced by restricting his power to attach peasant's property or getting him arrested. In addition, his system of lending can be so regulated that fraudulent practices become impossible. This can be done by forcing him to keep proper accounts and to keep the debtor informed of the latter's liabilities by fixing a maximum rate of interest, by taking out a licence. Such measures have been introduced in various provinces and if they are properly enforced borrowing for unproductive purposes will be definitely discouraged. We now proceed to consider these measures in greater detail.

8. New Agencies for Rural Credit.[1] The Indian cultivator is in debt as his income is low. Being in debt his credit is poor, hence the rate of interest is high. Low income, heavy debt, dear credit are a chain of cause and effect. Dear credit means low income and again the vicious circle starts. The problem of improving the cultivator's income must be tackled from all the various angles we have considered. One of these is cheaper credit. On analysis we find that the peasant needs long-term, intermediate and short-term credit. Long-term credit is indeed for introducing permanent improvements, purchase of more land or paying off old debts. Twenty to thirty years is the usual period. Shortterm credit is meant to provide seeds and manures, articles for personal consumption or for harvesting and marketing of crops. Such loans are seasonal in character and are not needed for more than 6 to 9 months. The duration of the intermediate credit is 2 to 4 years. It is utilized mainly for consumption purposes but it is also used for purchase of cattle and implements.

The distinction between short-term and long-term credit is gaining ground in India in recent years. For lack of it many co-operatives failed here, because they did not realize the need for lending money for short periods only. They wrongly followed the policy of borrowing short and lending long and came to grief.

In a country of small holdings intensive cultivation is imperatively needed. This calls for investment of much capital. "What we need most in the field of credit today is, so to say, a system for better financial irrigation." Money is always cheaper in bigger centres than in villages. There is a plethora of funds in Bombay, Calcutta and other big places. Rural areas have not benefited from growth of modern banking in India and are starving for want of capital. Anti-money-lending legislation has also resulted in an exodus of funds from village to town and, thus, increased the scarcity of capital.

The Government of India could borrow cheap loans at the current rate of 2½% to 3% and utilize the funds for long-term investment in agriculture. Land Mortgage Banks could be entrusted with this task and conditions and rates of loans prescribed. Loans could be granted to cultivators for repayment of debts to money-lenders after these debts have been scaled down or for investment in land. Measures could be adopted to insure that these loans were utilized for the purpose for which they were granted. This policy would lead to a direct transfer of funds from urban to rural areas.

Another suitable device would be to persuade Joint Stock Banks to supply cheap money to the peasant. These banks have been opening branches all over the country during war years. This is to the good, but to supply credit to the rural areas these branches hould be as cheap as a village money-lender's business. Branches f English banks in the countryside have no more staff than a anager and a clerk-*cum*-peon. Secondly, efficient credit instruments which would be acceptable to the commercial banks and ediscountable at the Reserve Bank should be created. Railway eceipts, crop-bills and warehouse bills would serve the purpose.

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[1] For a fuller treatment the reader is referred to the N.P.C. Report on Rural Marketing and Finance.

Difficulties inherent in the Reserve Bank of India Act itself which stand in the way of creation of these bills should be removed and the discount policy of the Bank liberalized to meet the needs of rural finance. At the same time the possibilities of creating some new agencies outside the present frame-work of co-operative credit may be considered. They are :—

(*a*) a better type of Land Mortgage Bank with more State aid.
(*b*) State banks for advancing long-term agricultural loans.
(*c*) Grain banks.
(*d*) Thrift Institutions of the type of Trustee Savings Banks Great Britain.

9. Restrictions on the Borrower. The most important of these are restrictions on the transfer of land. An outstanding example of this kind of legislation is the Punjab Land Alienation Act of 1901, amended in 1907 and again in 1938. A similar Act was passed for Bundelkhand (U. P.) in 1903. Restrictions on the alienation of land by aboriginal tribes exist in the C.P. and Bombay.

The Punjab Act led to a great controversy which is still not entirely dead. "In accordance with its provisions," in the words of the Agricultural Commission, ' the chief ancestral cultivating classes have been notified as falling within the restrictions imposed. Members of the Notified Tribes are grouped by districts and within such groups alienations are left free, subject to the ordinary customary law of the tribe ; sales and mortgages by members of a group to any one not such a member are restricted by the Act."[1] The Commission found that the Act had achieved its main object of restricting the transfer of agricultural land from agricultural to non-agricultural classes. This was the evil in the Punjab that had called forth the Act.

The opponents of the Act predicted many consequences. The value of land would be depreciated, the provisions of the Act would be disregarded or evaded, the money-lenders' trade would become impossible and the borrower would be pinched. In point of fact all these gloomy prognostications proved groundless."[2] Some evasion, however, took place through *benami* transactions by which transfers were nominally made in favour of an agriculturist while the real benefit was received by the non-agriculturist money-lender. Such transactions were made illegal by an amendment in 1938. Another amendment in the same year, put the agriculturist money-lender on exactly the same footing as the non-agriculturist money-lender. Land now cannot be transferred to either in payment of debt.

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[1] Report, p. 420.
[2] Calvert, op. cit., 268.

The most common criticisms of the Act are : (*i*) Before the partition of the Punjab and cross-migration of populations from East to West Punjab and back, it was claimed that it was a communal measure meant to help the Hindu against the Muslim. That argument has no force now.

(*ii*) It has failed in its real object as it has merely changed masters for the poor agriculturist. Now the agriculturist money-lender (in place of the non-agriculturist one) is rapidly buying up his land and reducing him to the status of a tenant. It is said in reply that the Act was never intended to stop all transfers of land. Transfers of uneconomic holdings to form parts of economic ones would be beneficial. Moreover, inquiries into sales by members of agricultural tribes do not show that large owners are buying up small owners to any appreciable extent. Finally, the amendment of 1938 puts the agriculturist money-lender on the same footing as the non-agriculturist one.

(*iii*) It prevents urban capitalist classes from investing money in agriculture thus retarding progress. "In Germany," says Darling, "rural movements owe much to men who were not agriculturists."[1] The Punjab experience is different. Here the non-agriculturist landlord does not cultivate land himself and "does not invest any capital in improving it...... but contents himself with obtaining the best rent he can."[2] The non-cultivating owners have not shown any marked interest in agriculture, beyond planting a few gardens."[3] They seldom cultivate their own land, but let it to the agricultural tribes on rent ; "this should be proof enough of their own belief as to who is best to cultivate it."[4]

In addition to the restrictions on the transfer of land there are legal restrictions on the attachment of other forms of property. For instance, the Code of Civil Procedure was altered, in order to exempt from attachment or sale agricultural tools and implements and cattle necessary for tillage as well as agriculturist's house. The agriculturist debtor was exempted from arrest for debt. He was also allowed to repay his debt by instalments.

10. Restrictions on the Lender. The restrictions on the borrower are in a sense also restrictions on the lender, because they make the latter more cautious in lending when repayment is not easy. But there are some direct restrictions on the money-lender as well. They are :—

(*i*) Provisions for the registration and licensing of money-lenders.
(*ii*) Regulation of accounts.
(*iii*) Limitation of rates of interest.
(*iv*) Miscellaneous provisions.

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1. Darling, op. cit., p. 188.
2. Calvert, op cit., p. 271.
3 & 4 Ibid, p. 274.

The above provisions are contained in a number of Acts passed by various provinces. An important piece of legislation in this direction is the Usurious Loans Act, 1918, passed by the Central Government. It aimed at fixing a maximum rate of interest. One important feature of the Act was that the court could reopen old transactions and inquire into the equity of terms. The Agricultural Commission and the Banking Enquiry Committees, however, found that the Act was a dead letter. In recent years it has been amended by several provinces (like Bengal, Assam, C. P., Punjab, U. P., Madras and Bihar) with the object of making it incumbent upon the courts of law to reopen the account and reduce the rate of interest.

Other laws were passed by provincial Governments with similar objects.[1] We shall discuss them all together.

(*i*) *Registration and Licensing of Money-lenders.* The money-lender has to get himself registered and to obtain a licence in C. P. Bihar, Bengal, Bombay, U. P. and Punjab. In case of dishonesty a licence can be cancelled. A money-lender not taking out a licence can be punished with a fine in C. P. while in Bihar, Bengal, U. P. and the Punjab he cannot ask help from courts to enforce his claims. It is difficult to enforce registration and licensing. Supervision by inspectors as in the U.S.A. can ensure better observation of the law.

(*ii*) *Regulation of Accounts.* The money-lender has to maintain regular account books and to furnish his debtor with a periodic statement of his liabilities with respect, to principal and interest due on each loan. In Assam and Madras, such a statement is to be supplied only on demand by the debtor. He must also furnish receipts of payments received by him. Penalties (usually loss of interest) are provided for failure to keep accounts. Entry of fictitious amounts as debt is declared illegal and punishable with fine in Assam, Bihar, Orissa and the U. P.

It has been seen, however, that the law is usually disregarded in practice by the money-lender (Punjab) and is rarely enforced by the debtor (C. P.). The debtor's urgent need and his ignorance of his rights make the law ineffective.

(*iii*) *Limitation of Interest Rates.* Maximum rates of interest that can be charged are fixed by legislation. Distinction is made between secured and unsecured loans. Unsecured loans usually pay a higher rate. In some provinces (Bihar and Assam) compound interest is prohibited. In the U.P., Government notifies rates from time to time in the light of conditions in the money market. In the Punjab on secured loans the maximum rate is 12 per cent simple and 9 per cent compound interest and on unsecured loans it is 18¾ and 14 per cent respectively. The highest rates are allowed in Bengal being 15 per cent simple and 10 per cent compound on secured and 25 per cent simple and 10 per cent compound on unsecured loans.

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[1] A list of these Acts according to provinces is given below :—

THE PUNJAB : The Regulation of Accounts Act, 1930; Relief of Indebtedness Act, 1934; Debtors' Protection Act, 1936; Registration of Money-lenders Act, 1938.

BENGAL : Money-lenders' Act, 1933.

C. P : Money lenders' Act, 1934; Reduction of Interest Act, 1936; Protection of Debtors' Act, 1937.

U. P. : Agriculturists' Relief Act, 1934 ; Encumbered Estates Act, 1934; Regulation of Sales Act, 1934.

ASSAM : Money-lenders' Act, 1934.

MADRAS : Debtors' Protection Act, 1934; Agriculturists Relief Act, 1938.

BIHAR : Money-lenders' Act, 1938.

ORISSA : Money-lenders' Act, 1939.

In most provinces (Assam, *Bengal*, Bihar, the C. P., Madras, the U. P., and the Punjab), the principle of *damdupat* is adopted according to which the total interest of a loan cannot exceed its principal.

It is very difficult to enforce interest rates. The lender can always charge a higher rate from a needy borrower either by an agreement out of court or by entering as principal a sum bigger than is actually loaned. Such abuses have already come to light in Bengal, the U. P. and Madras. Vigorous propaganda is needed to inform the cultivator of the existence of protective measures.[1]

(*iv*) *Miscellaneous.* Other provisions relate to protection of the debtor from intimidation and molestation (as in C. P., Bengal, and U. P.). Others exempt his holding from attachment and sale in payment of the debt—as in the Punjab, Bihar, and the U. P.

11. Debt Legislation in the Punjab. There were a number of such laws passed for the Punjab combined. They apply to East Punjab.

(*i*) *Regulation of Accounts Act, 1930.* Under this Act the creditor is required to keep regular accounts and to furnish at the end of every six months a statement to every debtor. If he fails to do so, either whole or part of the interest due on a loan and the costs on the law suit may be disallowed by court.

(*ii*) *The Relief of Indebtedness Act, 1934.* The main provisions of this Act are : (*a*) A person owing Rs. 250 and over can apply to be adjudicated insolvent. (*b*) Estates up to the value of Rs. 2,000 can be summarily administered *i.e.*, without appointing a receiver or publishing certain notices. (*c*) Interest is to be deemed excessive by the court if on secured loans it exceeds fixed limits. (*d*) The act makes provision for setting up of Debt Conciliation Boards. The procedure followed by the Conciliation Board has been detailed in Section 9 (c) above. (*e*) The principle of *damdupat* is accepted. (*f*) Finally, an agricultural debtor may at any time deposit in court a sum of money in full or part payment of his debt for payment to his creditor, and from that date interest ceases to run on that deposit.

(*iii*) *Debtors' Protection Act, 1936.* This Act provides that a Civil Court can order the attachment and temporary alienation of the land of a judgment-debtor (*i.e.*, debtors against whom a judgment has been passed). For execution the proceedings are transferred to the Collector of the district who is to determine how much of the land is to be attached and for what period, not exceeding 20 years.

(*iv*) *The Land Alienation (Second Amendment) Act, 1938.* This

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[1] Abhyankar : *Provincial Debt Legislation*, pp. 45-47.

Act declares *Benami* transactions to be invalid. This fills a loophole in the Land Alienation Act of 1901 which prohibited sales of land by an agriculturist to a non-agriculturist.

(*v*) *The Land Alienation (Third Amendment) Act, 1939.* This Act seeks to put the agriculturist money-lender on the same footing as the non-agriculturist money-lenders so far as the acquisition of land of the debtor by the creditor is concerned. The creditor can not buy the land of the debtor until three years after the payment of the debt in full.

(*vi*) *Registration of Money-lenders' Act, 1938.* This Act requires all money-lenders to get themselves registered and take out a licence on payment of the fee that may be fixed. Failing this no court is to entertain any suit by a money-lender. The Collector may cancel a licence for a specified period for malpractice.

(*vii*) *Restitution of Mortgages Act, 1938.* This Act extinguishes mortgages effected before the Punjab Alienation of Land Act, 1901. Compensation may be paid under certain conditions.

12. A Critical Estimate of Debt Legislation. The measures considered above have been variously viewed. On the one hand, they have been welcomed as blessings for the peasants, and, on the other, they have been regarded as a curse. The Punjab measures were called the "Golden Bills" and the "Black Bills" respectively by their supporters and opponents. The following points of criticism deserve attention.

(*i*) The greatest objection advanced against debt legislation is that it has led to the contraction of credit in the rural areas. The Statutory Report of the Reserve Bank draws attention to this fact. "In areas where such legislation is in force, it is said that the money lenders have discontinued lending except to old and trusted clients and have restricted their loans to a minimum."[1] The contraction of credit cannot all be attributed solely to debt lagislation. The economic depression of the 'thirties was also responsible for it to a large degree. Even if these measures were responsible for contraction of credit, it was not an unmixed evil. We have seen that the major portion of the rural debt in India is incurred for unproductive purposes. If the money-lender has become more cautious—and that is one of the objects of this legislation—unproductive borrowing will be discouraged, and the cultivator will learn to live within his means.

(*ii*) Further it is objected that the measures have encouraged default of repayment of debt among the people. Even debts owed to Government and Co-operative Societies were not paid in the 'thirties. During the war years (1939-46) the rise in prices improved the repaying capacity of the borrower. Thus the overdues went down from Rs. 11·2 crores to Rs. 6·2 crores during this period.[2] This proves that the peasant is prepared to pay if he can. The real trouble is that adequate arrangements do not exist to assist the debtor in the payment of the reduced debts. The establishment of Land Mortgage Banks can supply this need. They can arrange for cash payment on behalf of the debtor and realize the amount in small instalments over a period of say 20 to 25 years. Another way is for the Government to take over the debt directly and realize it (after it has been scaled down) with the land revenue over a period of 20 to 30 years.

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[1] Statutory Report Agricultural Credit (1937), p. 10.

[2] Review of the Co-operative Movement in India, 1939-46. Agriculture Credit Deptt. of the Reserve Bank.

(*iii*) It is also said that in some cases the resources of the debtor are so meagre that he is unable to pay even the reduced debt. For this a simple Rural Insolvency Act is necessary. There was an Insolvency Act passed in 1920, but it was intended only for debtors owing more than Rs. 500. The Royal Commission on Agriculture recommended amendment enabling debtors of less than Rs 500 to have its benefit. This recommendation has been given effect to in the C.P. and Berar and the Punjab and Bengal. Similar Insolvency provisions should be made in all the provinces

(*iv*) Further it is pointed out (*e. g.*, C. P. Land Revenue Report, 1937) that after the debt has been reduced and instalments fixed, the debtors find it difficult to secure new credit, until the last instalment has been paid. To avoid this difficulty the Conciliation Board should allow adequately for the current needs of the debtor while fixing his capacity to pay.

(*v*) Another line of criticism is that the limit of the debt which can be conciliated is fixed too high in some provinces, *e. g.*, Rs. 50,000 in the C P. and Rs. 15,000 in Bombay. This is a minor matter and can be set right, if necessary, by an amendment.

(*vi*) Further criticism relates to the effects of debt legislation on the Co-operative movement. Co-operative Societies, no doubt, have been given a privileged position by these Acts. In the Punjab, co-operative debts cannot be touched by the Conciliation Boards. In Central Provinces and Berar, Madras, Assam and Bengal no settlement is valid without the previous written permission of the Registrar. In Madras, the Agriculturist Relief Act of 1938 does not apply to co-operative debt. The reasons for the treatment are obvious. Co-operative Societies keep regular accounts, and they are under Government supervision and they are not profit-making bodies. Moreover these advances come out of the common fund of members and concession to some may be detrimental to others. But it should be remembered that some advances of Co-operative Societies are bad debts and their writing off will be good for the movement. It will give more realistic picture of their assets. Hence all debts, co-operative and others, should be taken into account before a debtor's capacity to pay is fixed.

It may be emphasized, however, that debt legislation is not the final remedy for the evil of indebtedness. Money-lenders' activities may be regulated, maximum rates of interest may be fixed, old debts may be reduced or abolished, but unless the basic causes that lead to the emergence of this evil are tackled, no permanent cure will be possible. Indebtedness will arise again. The permanent cure involves rehabilitation and reorganization of our whole agricultural economy and increase in the income and resources of the cultivator.

CHAPTER XII

CO-OPERATION

1. Meaning. The essence of co-operation is that isolated and powerless individuals can, by combining with one another, achieve advantages available to the rich and powerful so that they advance not only materially but also morally. Through co-operation they hope to attain "the effective realization of the higher and more prosperous standard of life which has been characterized as better business, better farming, and better living."

" Every group of individuals," says Strickland, "associated to secure a common end by joint effort may be said to co-operate; for instance, a football team, a gang of robbers, or the shareholders of a speculative company. A century of history has given to Co-operation with a capital 'C' a more precise meaning. It indicates the association of individuals to secure a common economic end by honest means; it is also essential in many forms of co-operation that the individuals possess a personal knowledge of one another."

"The basis of association," continues the same writer, "is (*i*) voluntary, and (*ii*) democratic; voluntary because those only enter it who feel the economic need at which it aims.........; democratic, because those who feel a real need will be men of modest status, who, if only the honest are admitted, will not resent equality, will in fact meet most easily on an equal footing."[1]

Thus these characteristics of a Co-operative Society are notable: (*a*) it is voluntary, (*b*) it is democratic and (*c*) the moral element in its aims is as important as the material.

2. Origin and Development in India. India was faced with the problem of the growing rural debt in the closing decades of the 19th century. About this time the success of small village banks in Germany attracted the attention of those who were anxious to solve this problem. The Madras Government deputed Frederick Nicholson to study the system and his report was published in 1895-97. About this time Mr. Dupernex in the United Provinces, and Edward Maclagan and Captain Crosthwaite in the Punjab were organizing credit societies which could be registered under the ordinary Company Law. The Famine Commission of 1901 strongly recommended the introduction of credit associations. The result was the passing of the Co operative Credit Societies Act in 1904.

The object of the Act was "to encourage thrift, self-help and co-operation among agriculturists, artisans and persons of limited means. The societies were to be either rural or urban. Generally speaking, in the organization of rural societies the principles of Raiffeisen and in that of urban societies those of Schulze-Delitzsch. (both pioneers of co-operation in Germany) were followed.

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[1] Strickland —*Co-operation in India*, pp. 15- 16.

The principles of the Raiffeisen models are :—

(*a*) Ten or more persons can form a society. (*b*) No shares are issued ; capital is secured by borrowing money on the joint responsibility of all the members. (*c*) The members have unlimited liability (*d*) Each society is limited to the village, so members are expected to know one another's financial condition and no person can become a member of more than one society. (*e*) There is no entrance fee. (*f*) The only paid member is the secretary-treasurer. (*g*) Loans are granted for productive purposes only and on personal security. (*h*) No dividends are distributed : on the dissolution of a society the reserve funds are devoted to public or charitable purposes.

The principles of the Schulze-Delitzsch model are :—

(*a*) It believes in a large membership drawn from a wide area ; (*b*) in the payment of the large salaries to office-bearers ; (*c*) in the distribution of handsome dividends ; (*d*) in conducting general banking business ; (*e*) in charging entrance fees, and keeping out persons who possess no income. (*f*) Its aim is more materialistic than humanitarian. (*g*) The liability of members is limited.

Soon, however, certain defects were noticed in the Act of 1904 : (*i*) It only sanctioned credit societies ; (*ii*) it provided for no central agencies for supervision and supply of capital; and (*iii*) classification into urban and rural societies was found to be unscientific and inconvenient. A new Act—the Co-operative Societies Act—was therefore passed in 1912.

The Act of 1912 removed the defects of the Act of 1904 as under:

(*i*) Non-credit forms of co-operation affecting purchase, sale, production, insurance, housing, etc , were recognized.

(*ii*) New organizations for supervision, audit and supply of capital, were recognized : (*a*) unions, consisting of primary societies for control and audit; (*b*) central banks; and (*c*) provincial banks for supply of capital.

(*iii*) Instead of the old distinction between rural and urban societies, a more scientific distinction was made between those with limited and those with unlimited liability. The liability of a society, of which the members were registered societies, was to be limited. Societies which aimed at provision of credit and the majority of whose members were cultivators, were to have unlimited liability. The others were left to the option of the members.

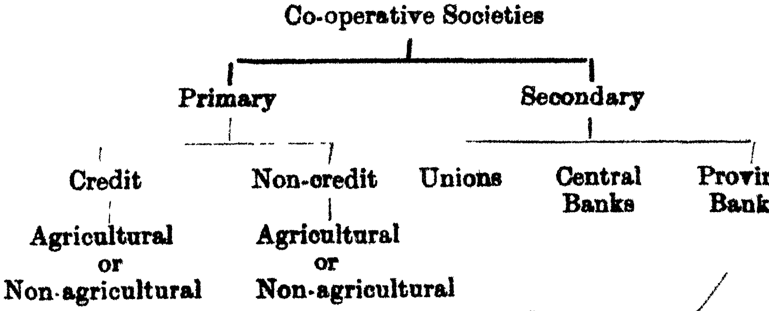
The Act of 1912 stimulated considerably the growth of the movement and the Maclagan Committee was appointed to review the progress made. It made useful recommendations for future development. The movement continued to make satisfactory progress.

Under the *Reforms of* 1919, co-operation became a provincial transferred subject and the movement took rapid strides under the zealous guidance of the new ministers till 1929. The provinces passed their own Co-operative Acts.

After the Great Depression of 1929 the progress of the movement was rather discouraging. This was a period of reform and consolidation rather than that of expansion.

The abnormal conditions created by World War II have led to some far-reaching developments in the co-operative movement. There has been an over-all improvement. Between 1938-39 and 1945-46 the increase in the number of societies, the number of members and the working capital have been respectively 41%, 70% and 54%.[1] Also the movement touched 6% of the population in 1938-39, but 10% in 1945 46. The war stimulated the growth of consumers' stores and marketing societies. Many new types of producers' societies like weavers' societies, milk supply unions, motor transport societies, fruit growers' and cane growers' associations, etc, were formed. The credit societies extended their functions and the movement manifested its multi-purpose potentialities. Loan repayments were accelerated, turnover was brisk and working capital registered a substantial increase, though not in proportion to war-time inflation which means that a unique opportunity of augmenting working capital by increasing members' deposits was lost. Thus during the War "with a large turnover, accelerated repayments and shrinkage in the over-dues, the societies gained in strength and vigour."

3. **Structure of Co-operative System.** The following diagram explains the structure of the co-operative system in India:—



Primary Societies may be thus classified :—

(1) Agricultural Co-operative Credit Societies.

(2) Agricultural Co-operative Non-credit Societies.

(3) Non-Agricultural Co-operative Credit Societies.

(4) Non-Agricultural Co-operative Non-credit Societies.

4. **Agricultural Co-operative Credit Societies.** A primary agricultural credit society can be formed by ten or more persons

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[1] Review of the Co-operative Movement in India (1939-46), p. 2.

(maximum 100) by applying for registration to the Registrar of Co-operative Societies. The area of operation is usually a village to ensure mutual knowledge and supervision on the part of members. The liability of members is unlimited to inspire confidence in the minds of the outsiders and to stimulate mutual control and supervision among the members. The working capital is derived from entrance fees, deposits, share capital, if any, of the members. Share capital is issued only in the Punjab, the U.P and Madras. Capital is also secured from outside by means of loans and deposits from Government, from other societies and from Central and Provincial Banks.

Loans are given to members for (*i*) productive purposes like (*a*) short-term credit for current agricultural operations and (*b*) long-term credit for permanent improvement of land; (*ii*) for unproductive purposes in moderate amounts, *e g*, for marriage ceremonies, etc.; and (*iii*) for redemption of old debts. Loans are usually given on personal security and sometimes on security of property, etc. Repayment is allowed in easy instalments. In the case of disputes, arbitration is provided for to discourage litigation. The Registrar can dissolve a society if it does not improve its working in spite of warnings.

Every society is required by law to build up a reserve fund to which all profits are credited in the case of societies with no share capital. In the case of others, 25 per cent of profits is carried to this fund. Ten per cent of the profits, if the Registrar allows, can be spent for charitable purposes. Accounts of the society are annually audited by officers deputed by the Registrar. The societies enjoy certain privileges like exemption from stamp duty, registration fee and income-tax. Their shares cannot be attached and they have a prior claim over other creditors.

The management is in the hands of two bodies, *i. e.*, the General Committee consisting of all the members and a smaller Managing Committee elected by the general body. The current business is disposed of by the Managing Committee, *e.g.* granting loans, admitting new members, etc The General Committee elects the Managing Committee, appoints the paid secretary, amends bye-laws, etc.

A review of the co-operative movement since 1938-39 shows that the credit societies have pulled through the crisis which threatened them since the Great Depression. Half of the outstanding loans had become overdue. During the 10 years ending 1939-40 there was a 50% drop in fresh advances. The immediate cause of stagnation was the economic depression and to some extent debt legislation. But World War II changed all this. The position regarding overdues which was so disquieting, has considerably improved, the overdues having gone down from Rs. 11·2 crores in 1938-39 to Rs. 6·2 crores in 1945-46. The number of societies, membership and deposits have shown a remarkable increase. The working capital, however, did not increase much owing to decline in the amount of loans taken from provincial and central banks. The reason for this decline seems to be that recoveries have generally exceeded the amount of fresh advances. High agricultural prices improved the repaying capacity of the borrower. Hence the liquefaction of frozen and irrecoverable assets which placed the societies in a definitely better financial position.

The improvement has not been uniform in all provinces. Bengal has the largest number of societies but qualitatively it is disappointing, for 80% of the outstandings are overdue. The Punjab also does not seem to have fared well. There has been intense rehabilitation of the movement in Bihar with the writing off of the overdues and a decrease in the outstandings. The development in Bombay and Madras has been specially marked, particularly on the non-credit side.

The co-operative movement has been essentially a credit movement from its very inception. But during the last 10 years there has been considerable diversification of the functions of the credit societies. Even now about 85% of the agricultural societies are credit societies and they form 72·7% of the total number of societies in India.

The owned capital is only 50% of the working capital which shows that the element of thrift in the movement is small and dependence on outside finance disproportionately large. "Indeed the financial distributary system of co-operative credit in this country," says the Reserve Bank Review, "is largely a channel for the flow of Funds from the well-to-do towns-people through the Provincial and Central Banks to the primary societies and thence to the numerous and scattered individual members of societies."[1]

5. **Agricultural Co-operative Non-credit Societies.** Non-credit societies have not developed to the same extent as credit societies. They were about one-fifth in 1945-46. Their slow development has been due to a number of causes : (*i*) The Act of 1904 made no provision for such societies and it was only after the Act of 1912 that such societies began to be formed. (*ii*) In other countries—*e.g.*, Europe and America—also the non-credit movement developed later and much slower than the credit movement, due to greater training and experience being necessary for running them. (*iii*) The industrial backwardness of India and the illiteracy of people also stood in the way. (*iv*) Finally, credit societies in many cases also took up non-credit functions—such as purchase of implements, seeds and manures, etc.

In recent years non-credit societies have shown remarkable progress. Two factors are responsible for this :

First, inflationary increase in agricultural incomes leading to accelerated repayments increased the funds at the disposal of the societies which had to seek outlets in other directions. Secondly, the co-operative societies were entrusted with the task of distributing the essential supplies of sugar, cloth, matches, kerosene, etc., on account of the wide prevalence of black-marketing and profiteering.

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[1] Review of the Co-operative Movement, op. cit. p. 6.

Remarkable progress has been made in co-operative marketing in Bombay, Madras, the U.P. and Bihar. The progress in other provinces has not been satisfactory. The commission shops of the Punjab have not done well and the jute societies in Bengal also have failed. The Punjab had in 1945-46 the largest number of better farming societies. In Madras there are agricultural improvement and demonstration societies. Then there are Consolidation of Holdings Societies of which the Punjab had in 1945-46 about 2,000. Joint farming had been recently taken up.

Co-operative movement has also been concerned with promoting 'better living' or 'rural reconstruction'. In 1945-46 there were 2,350 'Dehat Sudhar Societies' in the Punjab and in the U. P. there were 4,000 such societies. These societies have carried on propaganda for curtailment of ceremonial expenditure, dug wells, introduced better farming methods, established dispensaries and adult schools, encouraged cottage industries and settled disputes.

Among the other forms of co-operative activities may be mentioned land reclamation, anti-erosion measures and forest management in the Punjab, fencing and crop protection in Bombay, improving irrigation in Bengal, Madras and the U. P. and cattle breeding and veterinary aid in the Punjab. In Matsya Union 41 co-operative societies have been formed among the refugees from West Punjab for the cultivation of 250,000 acres of land. This big step in the direction of co-operative farming is being watched with great interest.

6. Single versus Multiple-purpose Society. Recently a controversy[1] has appeared in co-operative circles which demands our attention. The question is whether there should be one society for tackling every separate problem of the cultivator—credit, sale and purchase, improved methods and implements etc., —or there should be a single society which should take charge of all these problems over the area of a single village or a few villages together. So far the typical society in India has been a single purpose society, though some credit societies have also performed other functions like introduction of better seed and implements, etc., and the better-living societies also tackle the village problem in its various aspects. The question is whether the multi-purpose society should be made the typical society.

The Reserve Bank of India has strongly advocated the cause of such societies. How the new society will come about and how it will perform its functions, according to the Reserve Bank, is shown in the following extract from one of its publications: "Starting with credit for current needs, a society may get the old debts of its good members liquidated through a land mortgage bank, introduce better business and better monetary return by inducing its members to sell their produce co-operatively, ensure their growing of the improved varieties of crops by purchasing seeds for them, save on purchases by arranging for the purchase of their other needs jointly and at profitable rates on an indent system without incurring any risk or liability, save litigation expenses by effecting arbitration, improve the outturn of crops by consolidation of holdings, supply of pure seeds and improved implements, supplement the income of its members by inducing them to take to subsidiary industries, introduce better-living measures by adopting bye laws by common consent which will curtail ceremonial expenditure and remove insanitary habits, provide medical relief, and so on"[1]

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[1] See Reserve Bank's Review of Co-operative Movement, (1940-41), pp. 20-26; S.G. Beri in *Indian Economic Journal* (January 1942), p. 515.

Many benefits are claimed for the multi-purpose society. Greater loyalty and sustained interest of members; freedom from the evils of cash economy; wider area of operation hence more economical and efficient management; its utility in the moral uplift movement and the promotion of subsidiary industries connected with agriculture. It can serve as a good agency for the rehabilitation of rural life as a whole; it will have a comprehensive understanding of all the various problems that the agriculturist has to face. In any case a proper co-ordination of the various co-operative activities is necessary even if there are separate societies for each purpose. Multi-purpose societies can do it best.

On the other hand, its opponents raise a number of objections against it (*e.g.*, Strickland at the Registrars' Conference, 1939): That the business ability of the villager may be overstrained; the danger of its becoming cumbersome in mechanism and unintelligible to the simpler members; failure of one line of business may affect other lines. Then there are disadvantages due to the larger area of operations It is held that on account of the failure of members to secure the necessary mutual knowledge and trust, an essential purpose of the co-operative movement will be defeated. Moreover, a small village unit is regarded necessary as a training ground. Then the limited liability of such a society is also objected to.

In spite of these objections multi-purpose societies are finding an increasing number of supporters. The thirteenth Conference of Registrars of Co-operative Societies held at Delhi in December, 1939, supported them. The Madras Committee on Co-operation, 1940, also favoured the idea.

During the last 10 years, the multi-purpose societies have made appreciable progress particularly in the U. P., Bombay, Bengal and the C. P. and Berar. There has been an all-round increase in their

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1. Reserve Bank of India: Review of Co-operative Movement pp 20-22.

number, membership, loan operations, turnover, etc. Besides giving financial assistance to their members, they arrange for the marketing of the members' produce and for the supply of seeds, manure, implements and other requisites including foodstuffs.

7. **Non-Agricultural Co-operation.** Non-agricultural co-operation, too, has two aspects, *viz.*, the credit and the non-credit.

(*i*) *The Credit Societies.* The credit societies are generally found in the urban areas and are on the Schulze-Delitzsch model—large membership, limited liability, high dividends, etc.

These societies have taken different forms. In Bombay and Madras there are Peoples' Banks meant specially for the benefit of the middle classes. There are thrift and life insurance societies in East Punjab, Bombay and Madras Societies for employees of large firms and government departments have made good progress in Bombay, Bengal and Madras. Their primary purpose is to promote thrift, though they also grant loans to members at reasonable rates. There is, however, a tendency for the members to borrow up to the maximum limit almost continuously, There are communal societies for the uplift of backward classes. Artisans' Societies of carpenters, shoe-makers, etc, on the Raiffeisen model mostly in Bombay and there are societies for factory workers providing credit, promoting thrift and carrying on social and educational activities among mill hands. There were 156 such societies in Bombay in 1945-46. The Co-operative Planning Committee recommends the formation of such societies in all factory areas. Societies have also been formed for improving the social status and economic conditions of depressed classes. These societies, however, have not met with success owing to the meagre income of these classes.

In 1945-46 there were 7,554 non-agricultural credit societies of which the urban banks are the most important. They perform almost all the functions of commercial banks. Bombay and Madras have shown remarkable development in this direction, where almost every town has such a bank. By drawing off money from people's pockets, they had a salutary anti-inflationary effect. They have asked to be freed from legal restrictions regarding loans, etc., so that they may be able to compete with the joint stock banks more effectively. But the Co-operative Planning Committee does not favour the removal of such restrictions.

A wrong impression seems to prevail that the co-operative credit movement is meant only for the agriculturists. But the non-agricultural credit movement has reached larger proportions in point of working capital and the business turnover. Unlike the agricultural societies, they did not suffer any setback during depression, as the fixed incomists in towns gained from the fall in prices. Owing to the educated membership and larger resources they have shown higher managerial standards. In almost every respect the non-agricultural societies have made much better progress. As compared with 1938-39, their loans and deposits doubled in 1945-46, whereas those of agricultural societies showed a positive decline.

(ii) *Non-credit Societies.* These societies have taken the following forms:—

Consumers' Societies. Up to World War II this form of co-operation did not make much headway. The Reserve Bank Review (1939-1946) attributes the failure of the Consumers' Societies to the low margin of profit, higher administrative costs, inadequacy of capital, the lack of trained, capable and honest staff, disloyalty of members, insistence on cash payments, absence of central organizations which could purchase goods directly from the producers for their stores, etc. Other difficulties are strong outside competition and absence of a large class of people with fixed periodical incomes.

World War II, however, created conditions which were favourable for the development of the Consumers' Societies. Prevalence of sky-rocketing prices, profiteering and black-marketing compelled the people to seek the assistance of the co-operative movement for the supply of essential requirements. Ability to pay cash on account of inflation and the official control on prices removed the other obstacles from the way of the development of co-operative stores. The Government also encouraged these societies by granting licences and allotting quotas of controlled articles as they were regarded as more efficient and reliable agencies for the distribution of these articles In Madras 26% of the card-holders were served by them.

The co-operatives have made much progress in Madras, where the movement has penetrated into rural areas and wholesale and central stores have been organized in urban centres. There were also in 1945-46, 69 stores in industrial concerns with 69,000 members. They have been established with the generous help of the employers and are expected to become permanent adjuncts to all industrial concerns and form an integral part of schemes of social security for the industrial labourers. The weakness of these institutions lies in the fact that they mainly deal in controlled articles ; 65% of their sales are to non-members and only 24% of their total purchases are from co-operative wholesale stores.

Industrial co-operation. One of the means for the resuscitation of the small-scale and cottage industries is to organize them on co-operative basis Since 1935 when Government of India inaugurated a system of annual grants in aid of cottage industries, a great fillip was given to the formation of industrial co operative societies of which the weavers' societies are the most important. Other societies have been formed by tanners, smiths, potters, oil pressers, bee-keepers, wood workers, etc.

Besides, milk supply societies and unions are functioning in several provinces but their development in Bengal, Madras and the U. P. is specially noteworthy. There are societies relating to insurance, labour contract and transport.

Co-operative Housing Societies. In towns like Madras, Mysore and Bombay, a beginning has been made in the direction of co-operative housing. In the town of Bombay, such societies have been organized under the auspices of the Bombay Co-operative Housing Association for the benefit chiefly of middle-class communities. Such societies are usually of two types : (*a*) those which buy land in common and assist members with technical advice, purchase of materials, etc., for building their own houses, (*b*) those that build houses and charge rent from members to cover cost of construction over a long period. The Government of India assists house-building societies with grant of loans.[1] In Bombay there were, in 1945-46, 126 societies and in Madras 113. The urgent need for the rehabilitation of the refugees has given a great fillip to co-operative housing.

8. **Central Societies.** So far we have been concerned only with primary societies. Now we come to the secondary societies which are formed to organize, supervise and finance the primary societies. These are Unions, Central Banks and Provincial Banks.

Membership of Unions is open only to societies, but in the case of Central Banks and Provincial Banks the members may be individuals as well as societies.

(*i*) *Unions.* Unions may be of three kinds :

(*a*) Guaranteeing Unions (as in Burma and Bombay in the past).
(*b*) Supervising Unions (as in Madras and Bombay).
(*c*) Banking Unions (as in the Punjab).

Unions are federations of societies within a certain area, managed by a committee representing the member societies. Guaranteeing unions guarantee loans given by the central banks to member societies. The unions perform the function of supervision of primaries and also serve as links between them and the central financing institutions.

(*ii*) *Central Co-operative Banks.* The central banks have been organized since the passing of the Co-operative Societies Act, 1912, to finance the primary societies and to act as their balancing centres. Such banks make it possible to draw capital from a larger field for the benefit of primary societies. They also help in adjusting and balancing the excesses and deficiencies of working capital of primary societies, within the area of their jurisdiction. Besides financing the societies, they do other banking business like accepting deposits, collecting bills, cheques, etc. In some provinces they also advance loans to individuals against real property.

Central Banks may be mixed or pure. Membership of mixed central banks is open to individuals as well as to societies, but the pure type is a truly federal central bank, and admits only societies as members. The mixed kind are more suitable to Indian conditions at present but the pure type should be the ideal. Pure types are found in East Punjab and Bengal and are generally called Banking Unions.

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[1] Reserve Bank Review, op. cit. p. 67.

During the last ten years there has been a general improvement in the financial position of the central banks due to war conditions although their number has remained stationary at 600. The position regarding overdues has improved and deposits and working capital have increased. As demand from the societies for advances was not sufficient to absorb the large funds at the disposal of the central banks, they have intensified their commercial banking functions. An encouraging development in recent years has been the tendency to eliminate individual members and to increase the number of society members. The central banks have taken to non-credit activities, *e.g.*, helping in the grow-more food campaign and in the distribution of foodstuffs and other consumers' goods at fair prices. All provinces have not made uniform progress. In Madras, Bombay and the Punjab the progress has been good, in Bengal position is almost stationary and in Bihar it has considerably deteriorated.

(*iii*) *Provincial Co-operative Banks.* They are apex banks which finance, co-ordinate and control the working of central banks in each province. They serve as clearing houses of the excesses and deficiencies of the working capital of central banks. They serve, moreover, as a link between the general money market and the co-operative primary societies in the villages Generally speaking, the apex bank does not deal directly with primary societies but through central banks, except in areas where central banks have not developed. The constitution of provincial co-operative banks also varies in different provinces. In Bombay, Madras, the C P. and Berar, Bihar and Assam the membership is open to societies and individuals; in Bengal and East Punjab only societies can become members. Their financial position is, on the whole, much sounder than that of the central banks.

The main features of the working of provincial co-operative banks during the last 10 years are, increase in working capital due to heavy inflow of deposits, stationary nature of outstanding loans due to satisfactory recoveries and investment of swollen surpluses in government and approved securities. Besides their normal banking activities, they have also taken interest in other co-operative activities, such as linking of various co-operative organisations together and financing the supply and distribution of foodstuffs and other necessaries to combat black-market operations. It is suggested that with their considerably strengthened financial position, the provincial banks should explore new co-operative avenues instead of venturing into commercial banking too far.

The need for an all-India Co-operative Bank was stressed by the Maclagan Committee. But since then opinion in this regard has undergone a change, due to superfluous resources being available with the provincial banks, the accommodation available with the

Imperial Bank and other banks and due to the fact that co-operation is now a provincial subject and needs development on independent lines according to local conditions. Moreover, spontaneous provincial inter-lending has developed, assisted by the Indian Provincial Co-operative Banks Association. Finally, the need for an all-India apex bank is not so great now because of the establishment of the Reserve Bank of India.

9. **Long-term Credit and Land Mortgage Banks.** The agriculculturist requires long-term credit principally for two needs, *i. e.*, for settlement of old debts and for land improvements. The Government gives loans for land improvements under the Land Improvements Loans Act, 1883, but such loans are inadequate. Moreover this does not provide for loans for settlement of old debts. The co-operative society cannot provide long-term credit. Its resources are limited and cannot be locked up for long periods. Hence the need for the establishment of Land Mortgage Banks.

A Land Mortgage Bank is an institution which gives long-term loans on the security of land mortgaged with it. Such a bank may be organized as a co-operative bank, a non-co-operative bank or a quasi co-operative bank, the last combining features of a co-operative and a commercial institution. Most of the Indian banks are quasi-co-operative. The co-operative type is the ideal, but in order to attract business talent and larger amounts of the capital from bigger capitalists, non-borrowing persons are allowed to hold shares and limited liability is introduced. Valuation of land is effected by trained officials lent by the Government and loans require the previous sanction of the Registrar.

In organizing land mortgage banks care should be taken that the constitution and working should be simple and the management efficient. The State can ensure their success in many ways : by giving guarantees for the repayment of principal and interest on debentures, by purchasing a portion of debentures, by granting special facilities and privileges similar to those enjoyed by co-operative societies, etc.

The credit for the establishment of the first co-operative land mortgage bank goes to the Punjab, where such a bank was established in 1920 in Jhang. These banks have not proved successful in the Punjab. "The success of land mortgage bank," says the Reserve Bank's Review, "depends to a considerable extent on accurate assessment of the value of the land offered as security and the annual repaying capacity, adjustment of loans and the terms of repayment thereto and the recovery of the instalments punctually."[1]

The existence of the Land Alienation Act, according to some critics, has contributed to the failure of these banks. Add to this the default of the directors and honorary workers, who were themselves large borrowers.

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[1] Reserve Bank Review, op. cit. p. 39.

A real beginning of land mortgage banking in India was made in 1929 with the establishment of Land Mortgage Bank in Madras. A central institution of this type was established in Bombay in 1935. Madras still holds the pride of place with 119 land mortgage banks. The Reserve Bank Review (1939-1946) thus sums up the position : " In spite of its vast agricultural population, India has not had a successful land mortgage banking structure. The land mortgage bank movement has failed at the place of its birth, the Punjab. It has either failed or remained in a moribund condition in several other provinces like the C.P. and Berar, Ajmer, Orissa, the U. P. and Bengal. The only province in India which has made a mark in land mortgage banking is Madras."

During the Great Depression land mortgage banking received some fillip as agricultural prices, and consequently land values had fallen and the agriculturists needed assistance. But during the last 10 years there has been reversal of these conditions. The agriculturists have experienced a measure of prosperity ; there have been even advance repayments of debts. Further, the Debt Conciliation Boards by scaling down the debt and providing for easy instalments of repayment, have reduced the need for borrowing. Hence the land mortgage banks which have so far confined their activities to debt redemption do not seem to have any bright future. It is therefore necessary for them now to turn to the financing of schemes of land improvements *i.e.*, bunding, fencing, sinking wells, purchase of costly machinery like tractors, etc.

It should be particularly noted that land mortgage banks have serious limitations and too much should not be expected of them. First, it is not possible for them to transfer to themselves the entire burden of agricultural debt. Secondly, such banks can only reduce the burden of debt; they cannot remove it altogether. Unless the agriculturists themselves act prudently and curtail their unproductive expenditure it is impossible to save them from the burden of debt.

10. Reserve Bank and Agricultural Finance. The Reserve Bank does not directly finance agricultural operations on account of the great financial responsibility on this central institution and the risky character of agriculture as a business. Indirectly, however, the Bank is doing useful work by creating conditions favourable for financing of agriculture, by giving expert advice and by publication of useful literature relevant to the problem of agricultural co-operative finance. Thus—

(*i*) The Reserve Bank of India Act (1934) allows the Bank to sell and rediscount agricultural bills and promissory notes endorsed by a scheduled bank or a provincial co-operative bank, drawn for the purpose of financing seasonal agricultural operations, or the marketing of crops, and maturing within nine months.

(*ii*) **It is further authorized to make loans and advances for 90 days** to provincial co-operative banks, and central landmortgage banks (declared to be provincial co-operative banks), and through them to co-operative central banks and primary land mortgage banks, against specified securities, *viz.*, Government paper and certain approved debentures and approved promissory notes.

(*iii*) The Bank has established an Agricultural Credit Department whose function it is to study all questions of agricultural credit and offer expert advice to Government and Co-operative Banks, and to co-ordinate the operations of the Bank in connection with agricultural credit and its relations with provincial co-operative banks and any other institution engaged in agricultural finance. This department has issued a number of bulletins on the working of co-operative movement in certain localities and has published an All-India Review of the Co-operative Movement.

This is a useful work, but a considerable weight of popular opinion would like to see the Reserve Bank less conservative in its policy towards agricultural finance. No doubt the Bank cannot supply normal finance to any of the credit agencies. It should come into the picture as a lender in the last resort, when ordinary sources of commercial credit appear inadequate for seasonal demands of business. The Bank does issue instructions and advice to co-operative banks by issuing circular letters from time to time. So far so good. But popular view would like to see the Bank giving more direct and adequate help to agriculture through co-operative agencies. For instance, the Bank does not grant at present any cash credit facilities to co-operative Banks. This is regarded by some writers as ultra-conservative view. It is also suggested that the scope of the functions of the Agricultural Credit Department should be extended, and early steps should be taken to bring the indigenous bankers directly within the orbit of the Reserve Bank.

11. Achievements of Co-operation. The co-operative movement has been subjected to the searchlight of criticism by various writers, committees and commissions. The achievements of the movement and its possibilities have obtained high praise on the one hand, and, on the other, the movement has been regarded by some writers as an utter failure, to be liquidated at the earliest moment. Among the achievements claimed for the movement are :

(*i*) That it has led to an all-round reduction in the rates of interest in the rural areas.

(*ii*) That it has encouraged the habit of saving and investment.

(*iii*) That it has led to a decrease in consumption borrowing.

(*iv*) That it has contributed to a better morality and an independence of outlook among the cultivators.

(*v*) And, finally that it has created an increasing interest in rural matters in the minds of urban capitalists and workers.

To this the critics of the movement reply that many of the above results are qualitative and hence difficult to measure, and that, even if such results have been achieved, they are associated only with the best societies, the number of which is not great. On the other hand, they emphasize the fact that the co-operative movement in India has been almost exclusively occupied with the problem of rural credit, and even in that field its achievements are not very remarkable. Even an official body, like the Central Banking Enquiry Committee, had to admit that "there is very little evidence about the reduction of total indebtedness through the agency of the co operative credit societies, for they are not in a position to finance the agriculturists adequately for the discharge of old debts." The various Provincial Banking Enquiry Committees also noted that only a small percentage of the current needs of agriculture is supplied by co-operative societies. The movement has only touched a small proportion of the total population of India. "All that has been done amounts only to a scratching of surface" (Sir M. Visvesvaraya).

This criticism contains a substantial element of truth. But considering the limitations under which the movement has developed in this country, it has made remarkable progress and has resulted in a lasting benefit to the Indian peasantry. Owing to cheapness of credit that it has made available, it has resulted in savings for the agriculturist which are estimated at about one crore of rupees. It has restricted debts by establishing a system of controlled credit and has weakened the vicious system of money-lending, that used to prey upon the ignorance of the peasant. Non credit side of the movement is also receiving increasing attention, and it has conferred considerable moral and material benefits on the rural classes.

12. Defects of the Movement. This, however, does not mean that serious defects do not exist in the working of the movement. Among the alleged defects[1] are :—

(*a*) Want of due supervision ; (*b*) undue delay in financing ; (*c*) financing more on the basis of assets than on paying capacity ; (*d*) indiscreet loans ; (*e*) contumacy of borrowers ; (*f*) unpunctuality in repayment ; (*g*) restriction of loans to a few favoured individuals ; (*h*) dishonesty and incompetence of Government, bank and society officials : (*i*) bad selection of members ; (*j*) membership spread over too large an area ; (*k*) concealment of old debts ; (*l*) faulty constitution ; (*m*) internal dissensions ; (*n*) inadequacy of funds ; (*o*) preponderating influence of one or a few members ; and (*p*) general lack of interest of members in the affairs of the society.

Further the difficulties of the movement have been increased by:

(*i*) The tendency to officialize the movement too much, and leave too little to private initiative ;

(*ii*) the eagerness of too enthusiastic organizers to rush the pace of the movement at the expense of intensive development ;

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[1] S. K. Iyengar, op. cit., pp. 401-2.

(*iii*) the opposition of the money-lending class, which has been growing in persistence ;

(*iv*) a few of the members monopolizing the work and leaving too little room for the incentive of others ; and

(*v*) abuse of power in the collection and distribution of funds.

A fundamental defect of the Movement is that element of thrift is very small and hence dependence on external sources of finance is disproportionately large.

The above-given defects and dangers are merely symptoms of the basic shortcoming—*i.e.*, the absence of the co-operative spirit. In Western countries much more is expected of co-operation than mere material well-being through the supply of credit and other needs of the farmer. It is expected to transform the whole human being, his personality, character, attitude to the community and attitude to life."[1] Co-operation in India has failed to achieve anything of this sort. What is the reason ? The basic reason is that there are certain conditions which are necessary for its success. These conditions are present in countries where co-operation has worked successfully ; they are absent in India.

13. Lines of Reform. The most remarkable results have been achieved by co-operation in Denmark, where, as has been pointed out by Sir John Russell, "the four essential conditions "of success are all present :—

(1) The village population is homogeneous ; there is nothing corresponding to caste distinctions.

(2) The cultivators are all literate.

(3) People's High Schools teach the cultivators better living both in the home and the village and inculcate ideas of corporate responsibility.

(4) The co-operative societies are mostly trading societies, taking over the produce from the cultivator and selling it for him. As depositors the members provide a substantial part of the funds ; it is their own money that is lent to members, and in consequence each borrower feels himself under the necessity of repayment."[2]

These conditions are absent in India and we have to create them. For one thing co-operation short of wholesale socialism is the only hope of our rural masses. That co-operation can succeed in this country is evident from certain excellent results achieved by some provinces, especially in the non-credit field. Cotton and gur sales societies of Bombay, consolidation of holdings societies of East Punjab, sugarcane supply societies of the United Provinces and Bihar and irrigation societies of Bengal can bear comparison with the best of their kind in the world.

Certain immediate reforms have been suggested by the Agricultural Credit Department of the Reserve Bank of India.

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[1] "Co-operative Action in Rural Life." Survey by International Labour Office, p. 80.

[2] Russell Report, p. 63.

(*i*) Scaling down of overdues and arranging for their payment by means of instalments over a period of years. In the meantime fresh finance should be supplied for cultivation and other necessary expenses, preferably in kind.[1]

(*ii*) Societies should build large reserves by increasing the margin between borrowing and lending rates in order to enable them to tide over unfavourable seasons and to meet unexpected losses.

(*iii*) Loans should, as far as possible, be given only for productive purposes, though care should be taken that too much rigidity in this connection does not throw the cultivator at the mercy of the money-lender.

(*iv*) Reconstruction of the primary credit society to make it a multi-purpose society.

(*v*) Primary societies should be federated into small Banking Unions (as at Kodinar in Baroda State), so that the functions of finance, supervision and education, which are now in the hands of a number of agencies are concentrated in the hands of one agency.

(*vi*) Special attention should be given to the development of co-operative marketing of agricultural produce.

(*vii*) The central and provincial co operative banks should be reorganized. "The larger and unwieldy central banks should be split up into suitable banking unions, even if the central co-operative bank is to be retained." The central banks should guide and assist the primary societies in their operations and the training of the members in the principles of co-operation. Similarly, the provincial banks should play a larger part than hitherto in the guiding of the movement. These central institutions, moreover, should maintain adequate liquid reserves and should establish closer contacts with first-class commercial banks, to be of greater service to the primary societies and the movement as a whole.

(*viii*) Finally, arrangements should be made for intensive training of the staff of the co-operative departments in the principles of co-operation, rural economics and banking.[2]

The Co-operative Planning Committee advocates an element of compulsion and positive and vigorous government guidance and control which, according to some, offends against the root principle of co-operation which stands for democracy and autonomy.

14. New Trends and Future Possibilities. We are now in a position to indicate the general trends and the future possibilities of the movement.

An important trend is the shifting of the emphasis from the credit activity to the productive and distributive functions or to its multi-purpose potentialities. Also, the consumers' movement is getting strong especially in Madras. This is mainly due to the conditions created by the war. Again, the military and civil needs of the

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1. Reserve Bank's Review, op. cit. pp. 16-17.
2. For details see Reserve Bank's Review, Chapter VII.

country during the war led to the birth of many new types of producers' societies and the extension of the old ones, *e.g.*, weavers' societies, milk supply unions and societies, cane-growers' societies and several others for cottage industries. Further, the movement is looking up as is evident from the increase in the number of societies, membership, deposits and loan operations and reduction in overdues and the number of societies under liquidation. Finally central banks are inclining towards commercial banking.

There are immense possibilities for the establishment of societies for the improvement of production, marketing and for the promotion of subsidiary occupations and the elimination of the costly chain of middlemen. With the removal of controls, the marketing societies can help in securing a fair price for agricultural produce. There is room for the multiplication of ghee societies, milk societies and fruit-growers' associations. There is also a good scope for societies for poultry farming, bee-keeping, fruit canning, leather, hardware, silk, horn and bone industries as well as for paddy husking, oil pressing, soap-making, glassware, toy-making, etc. The central banks have now ample funds to promote many-sided co-operative movements. The land mortgage banks finding no demand for advances for debt redemption can now play a fruitful role in promoting small scale irrigation works and mechanized cultivation. There is a bright future for co-operative housing societies as there is a serious shortage of accommodation. Transport co operatives and labour co-operatives too offer a good field and so also co-operative insurance. So far credit has touched only one aspect of cultivators' life. We must now turn to other aspects by starting multi-purpose societies. Co-operation should be used as an instrument of democratic planning in free India.

Suggestions for Further Reading

1. Maclagan Committee Report, 1914.
2. Agricultural Commission Report, 1928.
3. Central and Provincial Banking Enquiry Committees' Reports, 1929-1930.
4. Reports of Provincial Committees on Co-operation, especially Madras Report 1940, The Punjab Report by Wace, 1939, and Bombay Report by Mehta and Bhansali, 1937.
5. Report of Gadgil Committee, 1944.
6. Report of Co-operative Planning Committee (Saraiya Committee), 1945.
7. Reserve Bank Review, 1939-1946.
8. Statistical statements relating to Co-operative Movement in India, 1945-46 (Reserve Bank Publications).

CHAPTER XIII

THE STATE IN RELATION TO AGRICULTURE

1. Introduction. What part does the State play in relation to Indian agriculture ? In every country the State has to perform the basic functions of preserving law and order, safeguarding rights in property and enforcing of contracts. Without such protective activities no economic life is possible. We have already discussed some of the functions the State performs in relation to Indian agriculture, apart from the above basic functions. The State has constructed huge irrigation works, extensive roads and railways ; it provides credit for agricultural improvements, though on a limited scale ; it has initiated, and it controls and supervises, the co-operative movement ; and it has passed many legislative laws for the protection of the tiller of the soil from the money-lender and the landlord. Moreover, through its Medical, Public Health and the Veterinary Departments, it seeks to preserve and improve the health of the agriculturist and his livestock. With reference to the latter, it has established and maintained special cattle-breeding farms to improve the breeds. The Education Departments also do their little bit to spread literacy in the rural areas. There are certain activities of the State, however, that still remain to be discussed, and discussed with a certain amount of detail.

(*a*) *Activities in connection with the improvements in the methods of agriculture.* They are undertaken primarily by the Provincial Agricultural Departments with valuable help from the Central Government agencies and institutions. These involve (*i*) agricultural research, with regard to seed, manure, implements, pests diseases, etc.; (*ii*) agricultural education, aiming at producing agricultural research workers, officers for the Agricultural Departments and practical farmers; and (*iii*) popularization of results achieved through research by propaganda, distribution of seeds and implements, etc.

(*b*) *Rural Reconstruction.* This activity has wide scope involving both official and non-official effort. It aims at raising the material, mental and moral level of village life as a whole. It brings, through suitable agencies, to the door of the villager, in a practical form, the benefits that the various beneficent departments of the Government can confer on him.

(*c*) *Famine Relief Policy.* This aims at the relief of distress among the rural classes arising out of the failure of crops due to failure, scantiness or untimeliness of rainfall or any other reason.

(*d*) *Land Revenue Policy.* This concerns primarily not what the State gives to agriculture, but what the State demands from it. But it may have a relief aspect, when during periods of agricultural distress the State may reduce, suspend or remit the land revenue charges.

2 **Agricultural Policy.** For a long time the policy of Government of India towards agriculture has been one of apathy and drift. The East India Company was interested in commerce rather than agriculture. After the Mutiny, when the Crown replaced the Company the main objective of the British policy was administrative consolidation rather than economic regeneration. A series of severe famines that occurred in India in the last quarter of the 19th Century roused the Government to the need of locking into the ills of Indian agriculture. The Famine Commissions of 1880, 1898 and 1901 and the Irrigation Commission of 1903 made constructive suggestions for the improvement of agriculture in India. But the Government policy was mainly confined to palliatives like revenue remission, famine relief and taccavi loans. Report of Dr. J. A. Voelcker of the Royal Agricultural Society in 1889 drew pointed attention to the problems of Indian agriculture and also to the measures that ought to be taken to tackle them.

In the beginning of the present century the Government seems to have abandoned its attitude of passivity and was prepared to play a more positive role as is evidenced by the passing of the Co-operative Act in 1904, the establishment of the Central and Provincial Departments of Agriculture in 1905 and the constitution of All-India Agricultural Service in 1906. Since 1919 when agriculture became a provincial subject, the Central Government confined its activities to "superintendence, direction and control" of the work of the provincial governments. But as finance was a "reserved" subject the agriculture ministries were not able to do much. After the advent of provincial autonomy in 1937, the ministers evinced lot of enthusiasm but in most of the provinces the ministries were shortlived, and they confined their attention to problems like tenancy reform and protection of debtors and little was done for the improvement of agricultural operations. On the whole the governmental activities in agricultural sphere have produced little impression, for the total Government expenditure in the improvement of agriculture is ludicrously small, considering the area under cultivation in India and the number of people involved. World War II has brought the agricultural problem to the forefront. Our pitiful dependence on foreign food supplies has aroused our Government as never before and determined efforts are being made to meet this menace Food production and procurement have become top priorities and gigantic irrigation projects are under way in almost all provinces in addition to the work which is being done in the prosecution of the "Grow More Food" campaign. Our problem is to convert agriculture from a deficit to a surplus economy and thus to rehabilitate this ancient and vital industry. Freedom from want can wait but not freedom from hunger. A new orientation of agricultural policy is needed in which the Central Government must play a far more active part than it has done hitherto.

Our trouble all along has been that from the Reforms of 1919 onwards, while the main responsibility of agricultural development was being shifted from the Centre to the provinces, the main expanding sources of revenue were being preserved for the Centre, while the provinces had to rely on those sources of revenue (mainly land revenue) which had very little scope for expansion. In fact land revenue burden had to be reduced if the burden of taxes was to be distributed equally. No wonder, therefore, that the Provincial Governments could do very little to stimulate agricultural progress. The most they have done in recent times is to adopt certain protective measures to save the tenant from exploitation by the money-lender, the landlord and the middleman.

An event of great importance for the agriculturist during the period between the two wars was the appointment of a Royal Commission on Agriculture. It is necessary to know something about this Commission.

3. The Royal Commission on Agriculture. A Royal Commission was appointed in 1926 " to examine and report on the present conditions of agricultural and rural economy in British India and to make recommendations for the improvement of agriculture and the promotion of the welfare and prosperity of the rural population and in particular to investigate—

" (*a*) the measures now being taken for the promotion of agricultural and veterinary research, experiment, demonstration and education ; for the compilation of agricultural statistics; for the introduction of new and better crops and for improvement in agricultural practice, dairy farming and the breeding of stock ;

" (*b*) the existing methods of transport and marketing of agricultural produce and stock ;

" (*c*) the methods by which agricultural operations are financed and credit afforded to agriculturists ;

" (*d*) the main factors affecting the rural prosperity and welfare of the agricultural population; and to make recommendations."

The problems of land revenue and land tenure were excluded from the scope of the Commission's inquiry, although these are among the basic problems of Indian agriculture. The Commission issued a comprehensive report in 1928.

The recommendations of the Commission cover a very wide field including subjects like sub-division and fragmentation of holdings, improvement of livestock, irrigation, marketing, co-operation, rural education and rural reconstruction. Generally speaking the aim of the recommendations has been to bring about greater efficiency throughout the whole field of agricultural production. In order to render the business of farming more profitable to the cultivator, the Commission emphasized the necessity of widening the outlook of the peasant and stressed the importance of Government initiative in promoting agricultural progress. One of their basic suggestions was that "*the rural problem should be tackled as a whole in all its various aspects simultaneously*". A very important recommendation of the Royal Commission was for the creation of the Imperial Council of Agricultural Research.

4. The Functions of Provincial Agriculture Departments. The work of improving agriculture is mainly that of the provincial governments, the Central Government being merely a co-ordinating agency furnishing the necessary drive, guiding and directing the provincial governments.

The main functions of the provincial department comprise the supervision and control of (*a*) Agricultural Education, (*b*) Agricultural Research, (*c*) Demonstration and Propaganda, (*d*) Technical improvements, and (*e*) Distribution of improved seeds, implements and artificial manures, etc.

Let us consider these functions in some detail.

5. Agricultural Education. Instruction in agriculture is imparted at different levels. At the primary stage agricultural bias is sought to be given by means of nature study. In Bombay agricultural middle schools have been opened to impart practical training in agriculture and the trainees are expected to go back to the land after completing their course. In some provinces like East Punjab, agriculture is taught as a subject in vernacular middle schools and the high schools In East Punjab there is also a provision for F. Sc. in agriculture. Advance course in scientific agriculture is provided in the agricultural colleges at Poona, Coimbatore Nagpur and Kanpur. The counterpart of Lyallpur College (W. Punjab) has been started at Ludhiana in East Punjab. Post-graduate training in agriculture is imparted at the Indian Agricultural Research Institute, New Delhi. These colleges have provided staff for administrative posts in the agriculture department ; in very few cases have they produced the modern farmer.

Agricultural colleges impart agricultural education both theoretical and practical. They also carry on research on agricultural problems, either independently, or under the guidance of the Indian Council of Agricultural Research, if the subject is of all-India importance. The research relates to the evolving of better varieties of seed from the point of view of yield and resistance to disease and drought, pests and disease to which crops are subject, better implements and manures, etc. The results of this research are then tested on experimental farms, attached to the colleges or the research institutes.

6. Agricultural Research. We have already seen how, on the recommendation of the Royal Commission, the Imperial Council of Agricultural Research was established in 1929 "to promote, guide and co-ordinate agricultural research throughout India, and to link it with agricultural research in other parts of the British Empire and in foreign countries." It acts as a clearing house for scientific information. This Council works through two organs : (*a*) a Governing Body to manage the funds, etc., and other affairs and (*b*) an Advisory Board to examine proposals for research and submit them to the Governing Body.

The Council makes grants for specific purposes to universities and provincial Departments of Agriculture for research along approved lines. The Council usually does not undertake direct investigation but in two cases it has undertaken direct control. They are (*i*) the cost of production especially of cotton and sugarcane and (*ii*) statistical control of agricultural experiments. Several schemes of the Council have been carried out through the various institutions and institutes. In the words of the Russel Report, "A vast amount of primary work extending over a wide range has been accomplished." The Report recommended that "a stage is now reached when a reorientation of the Council's activities should be considered." The great need of the hour is "a fuller use of existing knowledge rather than the accumulation of mere knowledge for work on the cultivators' field rather than in the laboratory."

Following the recommendations of the Russel Report, the Council of Agricultural Research has undertaken an examination of the methods of demonstration and propaganda at present in use. It has now put forward a scheme known as the "project method" which aims at putting across a whole group of tested improvements simultaneously, instead of one item as hitherto, and to observe the combined effects of all these on the cultivators' income and on the land. The improvements will be carried out by the cultivator himself under the supervision and guidance of Government officials Shirala project in the C. P. covering 300 acres and embracing about ten villages is one such project which involves the use of the best method of cultivation, best seeds, manures, irrigation, drainage, measures against pests, best marketing methods, best livestock and the fullest application of the co-operative principle.

A monthly journal is published by the Council for the dissemination of the results of research.

The Council has done useful work in improving rural life and in making Indian agriculture and animal husbandry more paying. It has organized co-ordinated research and subsidized village project schemes embracing all important aspects of agriculture and animal husbandry. Regional Committees have been set up to focus attention on problems of regional importance

By spending about Rs. 1·25 crores it has evolved improved strains of rice, wheat and other cereals during the last 20 years which have yielded a return of about Rs. 29 crores. Evolution of a purple variety of rice has successfully met the menace of rice weeds and led to tremendous saving which in Chattisgarh Division of the C. P. alone has amounted to 20,00,000 maunds of paddy. Reasonably rust resistant types of wheat have been evolved. The wheat rust has devastated large areas and the annual loss is estimated at Rs. 6 crores. As for millets, 20% increase in the yield of jowar and 30 per cent in bajra has been obtained. Work has been initiated in respect of maize too. Wilt resistant varieties have been evolved in pulses and selected varieties of grams have yielded 10-30% increase over local variety. Schemes for the production of fruits in a number of provinces have been subsidized. Investigations have been conducted with organic and inorganic manures, farmyard manure, cattle dung, compost and oil-seeds making 5,000 trials on various crops. Ammonium sulphate has increased the yield by 70 per cent in the U.P. and Kashmir; maximum increase has been in oil-cakes *viz.* 110—190 per cent; a heavy application of green manure (60—80 lbs. Nitrogen) has given in certain cases over 100 per cent increase.

More than 100 schemes covering all aspects of animal husbandry are in progress. The main emphasis has been on the control of diseases, the chief being the rinder pest. Methods of immunization are being extensively used. Disease investigation officers have been engaged in all provinces and States. A complete veterinary survey has been conducted. Parasitic diseases received early attention. A devastating sheep disease called 'Gillar' has been successfully located by a simple method. Basic information concerning animal feeds also has been collected. It has been found, for example, that feeding value of rice is enhanced by washing and that fish and bonemeal can be used in our climate with impunity. Aquatic and monsoon grasses have also received attention. It has been established that unbalanced diet is more injurious to animals than adverse climate. Research in cattle breeding has resulted in the production of improved sires. Breeding research in sheep has been directed to the production of finer wool. Poultry breeding research has shown that Western birds can be acclimatized and production and yields to local birds can be increased by cross-breeding.

Research in dairying has resulted in the production of vegetable rennet, manufacture of casein and lactose as a cottage industry. Methods of neutralizing high acidity of ghee by the use of lime and of detecting adulteration of ghee with vanaspati have been discovered. A simplified and improved ghee boiler and improved village utensils have been designed.

Research has been directed towards obtaining knowledge concerning indigenous varieties of bees, their domestication and exploitation in the wild state, so that improved methods of bee-keeping can be taught to the villagers.

A cheap dressing of hides and skins has been discovered.

The Council has carried out schemes to improve the economic and nutritional conditions of some villages. Successful experiments have been conducted in mixed farming and dry farming. It has improved the system of agricultural statistics and crop forecasting.

The Governing Body of the Council in its 18th meeting held in Delhi on 31st January, 1949, made several important decisions regarding fundamental principles of agricultural research including reorganization of research on regional basis, a comprehensive plan of crop cutting survey to estimate crop yields, model schemes of research on agronomic, varietal and manurial trials to assess optimum yields and setting up an Information Bureau to collect and disseminate information on results of research.

When all is said it has to be admitted that the achievements of agricultural research have been very disappointing. In the words of the Russel Report : " In view of the fact that Indian experiment stations have been functioning for so many years it seems at first surprising that so little of the work done has found its way into the general body of agricultural science as expounded in standard treaties."[1] The laboratory has failed to establish a living and organic link with the field. Unless "the stream of knowledge is duly canalized so as to fertilize the actual fields and farms," its research work is of little use. There is a divorce between the farm and the laboratory which prevents any fruitful use of the results of research. Hence better and vigorous publicity is needed. In the second place, research is being conducted in an isolated fashion and there is little co-ordination. "As in our agriculture, so in our agricultural, research 'fragmentation' has been the bane."[2] Another defect is that little attention is being paid to the economic aspect of agricultural research. Unless methods suggested are paying and their application is within the means of the cultivator, the research is of little avail. A close co-ordination is also needed between agricultural research and economic research. Also closer collaboration is required between the technical expert and the economist. For instance, investigation into food crops must be conducted in consultation with human nutrition experts. Above all, as the Food Minister Mr. Jairamdas remarked while addressing the 18th meeting of the Governing Body of the Council, " Research should be inspired by a sense of relevance and urgency in view of the serious food situation"

7. Development Commission. The Russel Report has further recommended that a Development Commission, which could be combined with the Council, should be set up. The Commission should plan large-scale improvements and suggest ways of raising the standard of living in the villages. It should take up the following problems:—

(*a*) Soil conservation, deterioration and loss from soil exhaustion, soil erosion, salt and alkali.

(*b*) Crop production, especially the planning of cropping schemes, the balance between cash, food and fodder crops, the fusion of animal husbandry and agriculture, the improvement of grazing land, the taking of action on the results of marketing and other economic enquiries.

(*c*) The exploitation of discoveries or processes of commercial importance. The Commission should bridge the gap between the laboratory and the factory, and give information and advice to the commercial body undertaking the work.

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[1] Russel Report p. 6.

[2] Nanavati and Anjaria : *The Indian Rural Problem*, p. 101.

(*d*) The multiplication and distribution of seeds of approved varieties of crops and trees.

(*e*) The improvement of village roads.

8. Demonstration and Propaganda. The next step after research is to demonstrate the result on the model (or demonstration) farm or on the cultivator's own field. It is also necessary to carry on a sustained and vigorous propaganda in favour of the new method when its success has been demonstrated under the very conditions in which the cultivator lives. The improved seed is produced on a large scale in Government farms or is purchased from private producers. Similarly, modern implements are manufactured under Government supervision. Then arrrangements are made to supply seeds, implements and manures to the cultivators through stores or depots maintained by the Government at convenient places. Co-operative Societies are also used as a medium of approach to the cultivator. Farmers' weeks or fairs are organized by the department and agricultural assistants tour the countryside carrying the message of science to the remote villages.

9. Technical Improvements. Introduction of improved varieties, control of pests and diseases, irrigation, prevention of soil erosion, better tools and implements, better rotation of crops and the use of more fodder crops with a view to obtaining more farmyard manure are some of the technical improvements effected in Indian agriculture through official agencies About 80% of the total area under sugarcane and half of that under jute are sown by improved seed. Marketability in the case of commercial or cash crops and nutrition value in case of food crops are the guiding principles. A nutrition expert has been appointed who serves as a liaison officer between nutrition laboratory at Coonoor and agricultural research stations at Delhi. It is necessary to pay more attention to the cultivation of fruits and vegetables, especially the cheap varieties to suit the pockets of villagers. Subsidiary industries connected with fruit preservation and the making of jams and pickles may also be encouraged.

Lot of pioneering work has been in the direction of controlling pests. For this purpose time of cultivation or soil conditions may be changed, resistant varieties may be introduced or the pests may be destroyed chemically. Laws have been passed in India against importing insect-infected plants and for taking measures against local pests. The evil has not yet been mastered. Sir John Russel suggested action by the Central Government for the eradication and controlling of pests.

As for irrigation, care has to be taken against water-logging as, in the words of Russel Report: "Behind every large irrigation scheme there lurks the spectre of the alkali problem." The Agricultural Departments in co-operation with the Forest Departments are trying to tackle the serious problem of soil erosion which occurs not only in regions of heavy rainfall but also in dry regions. Efforts are being made to provide better manures and fertilizers. The Government has its own fertilizer factory at Sindri. India's need in this connection has been estimated at 350,000 tons. New tools and implements are being designed and the introduction of improved ploughs has made fairly rapid progress.

10. The Results Achieved. The Provincial Agricultural Departments and the Council have done useful work in connection with agricultural improvement. This work relates to introduction of better varieties of crops, improved methods of cultivation and manuring, better methods of harvesting and handling, measures taken to deal with locusts, operations in the production and use of protective *sera* and cattle improvement, encouragement of consolidation of holdings, improvements as regards soil management and the use of fertilizers, etc.

The most important work, however, relates to the improved quality seeds of the various crops The latest available figures show that the area under improved varieties of crops in British India is about 10 per cent of the total sown area. In the Indian States this percentage is only 1·3. But the percentage varies considerably as regards individual crops, the highest percentage being in the case of sugarcane and jute.

According to Sir Bryce Burt, *ex*-Vice-Chairman Imperial Council of Agricultural Research, the achievements in this connection during the decade following Agricultural Commission, were[1] :—

(*i*) The average yield of cotton in the quinquennium 1932-37 was 108 lbs. per acre as compared with 96 and 95 in the two previous quinquennial periods. As for the change in quality in the three years 1927-28 to 1931-32 short staple cotton, *i.e.*, below 7/8" formed 75 per cent. of the whole and medium-staple 25 per cent while in 1938-39 the figures were : short staple 63 per cent, medium staple 32½ per cent and long staple 4½ per cent.

(*ii*) In the case of jute in 1937-38 the area under departmental varieties was 1,763,000 acres out of a total of 2,889,000 acres.

(*iii*) The remarkable expansion of the groundnut crop has continued and India is the world's largest producer and its second exporter, despite the enormous internal consumption. The crop has spread from 3,000 acres in 1900 to 9 million acres in 1937-38.

(*iv*) In respect of sugarcane, about 80 per cent of the total area was brought under improved variety by 1939, and the estimated production per acre expressed as *gur* increased 1·1 tons in 1927-28 to 1·4 tons in 1937-38.

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[1] Paper read before a joint meeting of the India and Burma Section of the Royal Society of Arts and the East India Association on 16th June, 1942. Quoted by Nanavati and Anjaria, op. cit., pp. 89-90.

(*v*) As for rice in 1937-38, the area under improved varieties had reached 3,759,000 acres compared with 634,000 acres in 1927-28.

(*vi*) Progress in wheat production can be seen from the fact that the total area under improved varieties just fell short of 7 million acres mark in 1937-38, this being nearly one-fifth of the total area.

(*vii*) The tobacco industry, which was in its infancy in 1929, now employs about 2,500 flue-curing barns. Some 85 per cent of the total requirements of the Indian cigarette factories were provided by Indian-grown leaf in 1938 and an important export trade has now developed.

These are impressive achievements, but in view of the immense possibilities, they only touch the fringe of the problem. As we have seen, only one-tenth of the cultured area is under improved varieties. India spends only 1½*d.* per head of population on agriculture. This comes to less than Rs. 70 per 1,000 of population.[1] No wonder the pace of development has been slow. Some writers regard this as inevitable under the circumstances. "Having regard to the small holdings, to the poverty and ignorance of the Indian peasant and the variability of the seasons in India, it is not possible to achieve large results quickly.[2] The basic conditions of agriculture thus require a fundamental change. "Indian agriculture," according to Brij Narain, "needs a fundamental reorganization. Our experience during the world crisis suggests that the problem of Indian agriculture is too difficult to be solved by agricultural research and improvement. No real progress is possible without radical changes in the system of land-holding and the method of cultivation. Further, Indian agriculture cannot be modernized unless means are found to divert surplus labour in the villages to manufacturing industries."[3] We fully subscribe to this view.

11. Rural Reconstruction. *What is Rural Reconstruction?* Rural Reconstruction or Rural Uplift, as it is sometimes called, is a movement for the rehabilitation of Indian rural life. It has a material, an intellectual and a moral aspect. Materially it seeks to improve the health and raise the standard of living of the agricultural classes. The former is achieved by encouraging better sanitation and by the provision of medical aid. To realize the latter, better methods of cultivation, finance and marketing are popularized. As regards the mental or intellectual aspect, educational facilities are provided for boys, girls and adults. Information and instruction are also made available through the radio, the cinematograph, and lectures and demonstrations by touring parties The moral aspect, however, is the most fundamental. It seeks to awaken the will of the villager, to make him conscious of the value of his personality and individuality. It aims at creating in him the desire for self-improvement and self-discipline by individual and collective action. The object is to free him of the inhibitions that are obstructing the way of his self-realization. It seeks to release his pent-up energies by removing defeatism, superstition, baseless fears created by centuries of depression and oppression. In a word, it seeks to change his entire outlook on life.

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[1] Ibid, p. 91.

[2] Gadgil : *Industrial Evolution in India*, p. 237.

[3] Brij Narain : *India Before the Crisis*, p. 141

The Genesis of the Movement. The various departments of Government, Agriculture, Co-operative, Irrigation, Forest, Veterinary, Education, Health and Medical, had been trying in their own way to help the countryside in matters falling within the respective jurisdiction of each. It was found, however, that the officers of each of these departments, acting more or less in water-tight compartments, were not able to produce in the villages any urge for progressive action. Too many agencies confused him, their prescriptions, sometimes conflicting, did not inspire confidence. He was not made to see his problem as a whole. He regarded them as periodic visitors, the agents of a far-off Government, who were to be welcomed, fed and given a respectful send-off. It was a case of too many cooks spoiling the broth.

It was realized, first vaguely, and during the last economic depression more definitely, that if adequate and lasting results were to be achieved, the village problem which was the problem of poverty, ignorance, illiteracy, dirt, disease and general apathy, must be tackled simultaneously as one problem. The Royal Commission in 1928 had already expressed the view that "if inertia of the centuries is to be overcome, it is essential that all the resources at the disposal of the State should be brought to bear on the problem of rural uplift and sustained effort should be made by all those departments whose activities touch the lives and surroundings of the rural population."[1]

12. **Rural Reconstruction in the Punjab.** It is to Mr. F. L. Brayne, I.C.S., that goes the credit of starting the Rural Uplift Movement on a mass and organized scale. His first experiments were made in Gurgaon district of the Punjab, while he was Deputy Commissioner of that district. He introduced there the idea of a village guide in each village, who was to act as a channel through which advice of experts in various departments would pass on to the villagers. The scheme did not produce results according to expectations. As Mr. Darling pointed out,[2] the village guides were "hurriedly selected," "insufficiently trained" and "inadequately supervised." On account of their extreme youth, they failed to command any influence with the villagers. Moreover, proper attention was not paid to the study of details of local conditions. There was too much intensive but crude propaganda and too little

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[1] Report, op. cit., p. 86.

[2] M. L. Darling: *Rusticus Loquitur*, pp. 121-28, and pp. 155-59.

real teaching. Thus very little of permanent value was achieved.

The Rural Reconstruction movement gathered great momentum during the period of the recent economic depression. In the Punjab the services of Mr. Brayne were utilized for this purpose, and he was appointed Commissioner, Rural Reconstruction, in October 1933. In 1935-36 the Government of India announced a grant of Rs. 1 crore for distribution to the provinces, to be spent on schemes of economic development and improvement of rural areas. This gave considerable stimulus to the Rural Uplift movement in the various provinces. The movement, however, was conducted with the greatest vigour in the Punjab under Mr. Brayne as Commissioner.

The programme chalked out by Mr. Brayne aimed at the following practical steps :

(a) *Health* :

(1) The provision and utilization of pits for waste and rubbish of all kinds and the cleaning and keeping clean and tidy of every village, compound and building, be it house, office, school, place of worship, residence or stable.

(2) Cleanliness of person and clothes, particularly of children, and the teaching and practising of clean and sanitary habits.

(3) Two ventilators each for every inhabited room.

(4) Complete vaccination and revaccination.

(5) Control of malaria by making it impossible for mosquitos to breed in any pool, drain, hole, borrow pit, or collection of water in any building, compound or village or along the line of any public work. All such depressions not used for washing or drinking purposes must be either filled, drained, or treated with oil or Paris green.

(6) Provision of trained *dais*.

(b) *Farming* :

(1) Better seeds, particularly for wheat, cotton and sugar cane.

(2) More attention to the land in the shape of better implements, better methods, more ploughing and weeding, new and more profitable kinds of crops, sowing cotton in lines, control of insect pests, levelling and embanking of fields in hilly and undulating country.

(3) The improvement of cattle by making the buying and keeping of an improved bull the fashionable thing for a country gentleman to do.

(4) Control of cattle diseases by segregation of cattle coming from fairs and other villages.

(c) *Miscellaneous* :

(1) The abandonment of the custom of boring holes in children's ears and of putting gold or silver ornaments on children.

(2) Thrift, saving and cutting down of all unnecessary and

unproductive expenditure, particularly on litigation and faction quarrels, social ceremonies, ornaments and drink.

(3) Outdoor games and healthy recreation both for children and grown-ups for improvement of health and for the occupation of spare time.

(4) Girls' education, as the only permanent basis of all happiness and progress in town and village alike.

The means of attaining the ends were laid down as follows :—

(1) Well-organized publicity to spread the knowledge of what has to be done.

(2) Better schools, provision of playgrounds and gardens, better games and physical training, insistence on the practice of cleanliness and on the teaching of health knowledge.

(3) All forms of association, co-operative and otherwise, that can be used to bind people together for their own betterment.

The work was actually done on these lines and varying success was achieved under different heads. But the movement was not spontaneous. Brayne admitted that "this work is being done practically entirely by official inspiration, drive, persuasion and even order." If Government's special efforts ceased, all progress would come to a standstill and the results already achieved would vanish.

To quote Brayne again: "To achieve permanence, properly supervised village organizations are required and to achieve spontaneity and to assist permanence, the work must be made part of normal village life" The co-operative society, the village panchayat and the bigger landlords must create in the minds of the mass of the village the desire to improve their position. Unless that desire is created no improvement can be lasting.

The rural reconstruction work has now been transferred to the Co-operative Department in the Punjab. A special Assistant Registrar has been put in charge of it. The work is carried on through Better Living Society.

13 Rural Reconstruction in other Provinces The governments of other provinces also undertook activities on similar lines. A few words may be said about each of such provinces.

(a) *United Provinces.* The Congress Government in the U.P. appointed a special officer for rural reconstruction work. A Provincial Rural Development Board was created with the heads of the nation-building departments as members. The programme is carried on by District Rural Development Associations. Rural reconstruction units consisting of fifteen villages each are constituted. The work is done through the agency of Better Living and Better Farming Societies and the Panchayats. Their main activities consist of distribution of better seeds and implements, improvement in breeds of cattle, development of cottage industries, improvement of village sanitation and water supply and building of better *panchayat-ghars.*

A distinctive feature of the scheme is the training of women workers at the Fyzabad Women's Welfare Training Camp. They get instruction in girl-guiding, welfare work, handicrafts, care of children, etc. Selected women teachers are sent for training to this camp. After their training these teachers organize welfare work among village women.

(*b*) *Bombay.* In Bombay the Rural Reconstruction Department was first combined with the Co-operative Department, later the two departments were separated. Rural development was partly put under the District Collector. Propaganda work was entrusted to the Agricultural and the Co-operative Departments. A Provincial Board of Rural Development was created for guidance and advice. Its membership, in addition to a few nominated non-officials, consisted of the Registrar of Co-operative Societies and the Director of Industries with the Minister in charge of Rural Development and Agriculture as chairman. Four committees were appointed to facilitate the Board's work : (*a*) Agriculture and Livestock Committee ; (*b*) Training and Propaganda Committee ; (*c*) Committee for Cottage Industries ; and (*d*) Committee for Backward Areas. District Rural Development Boards were created to help them. The main agencies for development work are Taluka Development Associations, Better Farming Societies and other co-operative agencies. Their work consists of distribution of better seed and implements at concessional rates, improvement of cattle breeding, extension of dry farming methods, development of cottage industries, improvement in sanitation, supply of medical aid and care of backward areas and tribes.

(*c*) *West Bengal.* There is a separate Department of Rural Development under a Director of Rural Reconstruction. The work is carried out by Union Boards, Village Uplift Societies and Better Living Societies. The work consists of felling jungles ; repairing roads, construction of drains, distribution of quinine, cleaning of water hyacinth, distribution of seed and sinking of tube-wells. In the main, rural reconstruction aims at improving living conditions, raising standard of diet, providing amusement and recreation and encouragement of cottage industries.

(*d*) *Madras.* In Madras rural reconstruction activities are looked after by District Boards. The agency is the village panchayat. The main activities consist of improvement of sanitation, communication and water supply. An important feature is subsidized rural dispensaries. Other activities are distribution of better seed, better implements and construction of village godowns.

(*e*) *Other Provinces.* Among the other provinces Bihar, and Assam are worth mentioning in this connection. In Bihar a Rural Development Department was established in 1938. Four model centres with 20 to 30 villages each were started in each division. Intensive rural development work is carried out in them.

Training is given in these centres to organizers to start work in new centres. The co-ordinating body is the Provincial Rural Development Advisory Board consisting of the heads of the nation-building departments.

Work on similar lines is being carried on in Indian States like Cochin, Mysore, Hyderabad, Baroda and Kashmir.

14. Agencies of Work. *Official.* The rural reconstruction, organization and activities follow similar lines in the various provinces and the States. There is the controlling agency consisting of a separate department or portion of a department. Advisory Boards are formed of the heads of nation-building departments. There are supervising agencies which may consist of District Boards, Union Boards or Taluka Boards according to the local administrative machinery. Actual work is carried on by various kinds of co-operative societies like better farming and better living societies. In some cases village panchayats are becoming an important agency of work. Finances are provided mostly by the Government, in some cases by panchayats also.

Non-Official Agencies. Much useful work is also being done by certain non official agencies of which the most important are the All-India Spinners' Association, the All-India Village Industries Association, the Servants of India Society and the Christian missions. Among the other agencies may be mentioned Go Seva Sangh, Sriniketan at Bolpur (Bengal), Adarsha Seva Sangh, Sir David Hamilton's work at Gosaba (Bengal), and the various Kisan Sabhas in the provinces. These organizations specialize in one aspect of the work. For example, Christian missions promote education and Sriniketan seeks to make the villages look more beautiful. Then there are associations which work for the uplift of the aborigines and the depressed classes *e.g.* Bhil Seva Mandal, the Dang Seva Mandal and the Harijan Seva Sangh. These associations have done commendable work, though in some cases political motives vitiate their activities.

Results. The various organizations concerned with rural reconstruction have been doing much constructive work in connection with supply of good seed, improved implements, improvement of breeds of cattle, encouragement of cottage industries, improved sanitation and encouragement of primary education. Their reports make a very impressive reading. There is no doubt that good work has been accomplished in certain directions and in certain localities. But this work has not brought about any significant change in the conditions of the village and, what is more important, in the outlook of the villager. There are various reasons for this meagre achievement.

In the first place, India is an enormously big country with diversities of all kinds, physical and social. The forces of conservatism and inertia are too strong to be overcome within a short period.

Secondly, the activities have not been properly planned and co-ordinated. The first stage should have been that of detailed survey and investigation of the problems, and the second, creation of an all-India organization to give a push and backing to the movement. The experience of different localities should have been pooled for the benefit of all. Provincial work should have, of course, continued under the supervision and control of provincial bodies. But the Centre should have played a larger part in encouragement, co-ordination and finance.

Thirdly, the initiative has come from above and not from the people themselves. Training of village leaders should have received more attention. The village organs, the panchayat, the co-operative society and the school, should have been assigned more active roles. The panchayat especially should have been made the real village executive under the proper supervision of higher units like the District Board.

Finally, the rural reconstruction movement has left some of the basic problems untouched. For instance the problem of land tenures, tenancy, land reclamation, consolidation of holdings, encouragement of co-operative farming, etc : unless those problems are tackled, no far-reaching changes can be brought in the village life, and the village standards cannot be elevated.

CHAPTER XIV

FAMINES AND FOOD PROBLEM

1. Introduction. Until the recent calamity that involved Bengal, it was a common saying that since the beginning of the present century famines in India "are no longer food famines, but are only money famines." This meant that provided money was put into the hands of the people by giving them employment or charity there was no fear of starvation. This was so because food could be transported to areas of scarcity from the four corners, not only of India but also of the world.

In normal times this would be true even now. The Bengal famine was due to certain special circumstances created by the war.

Famines have been known to India from times immemorial. During the Hindu period famines must have occurred though records are not available to give us any details about them.

During the Muslim period several famines visited the country, four of them being very severe. The first was in 1343, during the reign of Mohammad Tughlak. During the reign of Akbar there was fearful famine which raged all over the country for three or four years. Under Shah Jehan, one of the greatest famines ever recorded in history visited India. Another famine followed during the time of Aurangzeb.

During the rule of the East India Company (1760-1857) there were twelve famines and four severe scarcities. The most important famines occurred in 1770, 1784, 1802, 1824 and 1837. On the whole the attitude of the Company was determined by commercial considerations.

In 1858, India passed under the rule of the Crown. Between that date and the end of the century there were several famines, and it was during this period that the policy of famine relief was evolved and perfected. The chief famines of this period were :—(1) 1860—North-West India, (2) 1865—Orissa, (3) 1868—Rajputana, (4) 1878—Bihar, (5) 1876-78—South India, (6) 1896-97—Bombay, Madras, Central Provinces, (7) 1899 1900—Bombay, C. P., Berar Nizam's Dominions and Central India.

2. Famines, their causes and cure. The apparent causes of famine are the failure of rains or drought, floods, locusts and plant diseases. Indian agriculture is said to be a gamble in the rains. If the rain is either too little or too much, famine conditions may be expected to prevail. Reckless cutting of the forests has resulted in frequent floods in several parts of the country causing a widespread damage to crops. Further, plant diseases, too, take a heavy toll. The wheat rust wiped out almost the entire crop in Central India.

in 1947. When locusts launch their attack, they practically leave nothing. In the face of these adverse natural factors, the Indian peasent feels utterly helpless.

The real and the fundamental cause of famines in India is economic backwardness of the people. India suffers from poverty which knows no parallel in the world. We have no reserve and no power of resistance or staying power when famine comes Basically it is a money famine rather than a food famine.

What is the remedy ? The remedy against famine indicates all the measures needed for the rehabilitation of Indian agriculture. In particular we must adopt effective flood control measures. Further, the whole countryside must be dotted with a net of major and minor irrigation works so that the bulk of the cultivated area is put under perennial or assured water supply. If the weather forecasts may be improved something may be done against an approach of inclement weather. The menace of locusts should be located and mastered before it raises its ugly head. In the modern scientific world it should not be difficult to fight successfully against crop diseases and blights. But unless the demon of poverty is laid, nothing really effective can be accomplished.

3. Evolution of Famine Relief Policy. From the point of view of the famine relief policy the famines of 1865, 1876-78,1896-97, and 1899-1900 were the most important.

The Orissa famine of 1865 induced the first great and organized effort to combat distress through State agency.[1]

But it was after the Great South Indian Famine of 1876-78 that the first Great Famine Commission was appointed under the chairmanship of Sir Richard Strachey. The recommendations of this Commission formed the foundations on which the famine relief policy was later on based. The principles of famine relief, as laid down by the Commission, were :—

(1) That employment should be given on the relief works to the able-bodied at a wage sufficient for support, on the condition of performing a suitable task ;

(3) that gratuitous relief should be given in their villages or in poor houses to those who are unable to work ; and

(3) the food supply should be left to private agency, except where that was unequal to the demands upon it ; and

(4) the land-owning classes should be assisted by loans and by general suspension of revenue in proportion to the crop failure.

On these principles provincial codes were drawn up and were tested by the famines of 1896-97 and 1899-1900 and were amended according to experience.

In the meantime in 1878, the Government had instituted a

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[1] Indian Year Book, 1941-42, p 373.

Famine Insurance Grant of Rs. 1½ crore a year to be provided in the annual budget. "The first charge on this grant was famine relief, the second protective works, the third the avoidance of debt."[1]

The famine codes were applied in the famine of 1896-97. The success attained in relief was the greatest so far. The Famine Commission under Sir James Lyall that reviewed the position after this famine, recommended relief for special classes like weavers and hill tribes; they laid down rule for managing charitable funds, advocated free grant of gratuitous relief. They favoured the extension of decentralized relief works. Before the people could recover from this famine, another very severe famine broke out in 1899 and continued in 1900.

In 1901 reported another Famine Commission under Sir Anthony MacDonell. The Commission emphasized the importance of 'moral strategy', or putting heart into the people. They recommended assistance by taccavi loans as soon as the danger was scented; early suspension of land revenue, a policy of 'prudent boldness' involving preparations for a large and elastic plan of relief, constant vigilance and full enlistment of non-official help. They also emphasized the necessity of tackling the fodder problem and thus saving the cattle. Further, they recommended starting of co-operative societies and extension of State irrigation in the form of protective works.

Side by side with the development of the famine relief policy the State has taken measures for protection against famines. Out of the Famine Insurance Grant, already spoken of, protective railways and protective irrigation works have been constructed.

4. The Famine Relief Fund. Under the Act of 1919 the Provincial Governments were required to institute a Famine Relief Fund by annual assignments from their revenues. This Fund was invested with the Central Government which paid interest on it. It was available for expenditure on famine relief under specified conditions. Under the Act of 1935 there was no provision for a separate Famine Relief Fund. Some Provincial Governments, however, instituted new Famine Relief Funds which are invested in securities of the Central Government.

In the meantime "the Indian People's Famine Trust", established in 1900 when the Maharaja of Jaipur gave a sum of Rs. 16 lakhs, increased in volume. Within a few years due to private philanthropy it stood at Rs. 28 lakhs. During 1934, it increased further when the invested balances of the United Provinces Famine Orphans' Fund were transferred to it. The income from the investment of this Fund is utilized for relief work whenever necessary. In recent years, due to the change in the character of the famines, the Fund has been used to relieve distress due not only to failure of rains but also to floods and earthquakes.

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[1] Indian Year Book, op. cit. p. 378.

5. The Present System of Relief. A few words may now be said about the system of famine relief that exists at present. A complete machinery exists now in the hands of the Government to tackle a famine when it arrives. A careful watch is kept on what are called 'signals' of approaching famine, *viz.*, failure of rains, wandering of cattle, high food prices, petty crimes, contraction of private charity. Steps are taken not only when the famine has actually arrived but preparations are made in anticipation : (*a*) "In ordinary times Government is kept informed of the meteorological conditions and the state of the crops; programme of suitable relief works are kept up to date, the country is mapped into relief circles, reserves of tools and implements are stocked." (*b*) "If the rains fail, policy is at once declared, non-officials are enlisted, revenue suspended and loans for agricultural purposes made. Test works are then opened, and if labour in considerable quantities is attracted, they are converted into relief works on code principles. Poor houses are opened and gratuitous relief given to the infirm." (c) On the advent of the rains the people are moved from the large works to small works near their villages, liberal advances are made to agriculturists for the purchase of ploughs, cattle and seed." (*d*)" When principal autumn crop is ripe, the few remaining works are gradually closed and gratuitous relief ceases. (*e*) "All this time the medical staff is kept in readiness to deal with cholera, which so often accompanies famine and malaria, which generally supervenes when the rains break.'[1]

Up to the recent Bengal famine this system worked quite satisfactorily. "Famine in the old terrible sense of the word," we were told, "ceased to occur." This was due to the possibility of moving food from surplus areas to deficit areas on account of the development in the means of communications and transport and the relief machinery of the Government described above. But this system of relief failed in Bengal famine of 1943.

6. The Bengal Famine of 1943-44. Although food situation could not be regarded normal during the first two years of the war, ince food prices were rising, the difficulties in their acute form dated from the entry of Japan into the war in December, 1941. The worst sufferer in the scarcity that followed especially after the end f 1942 was the province of Bengal. Apart from this province cute food scarcity was experienced in Madras, Bombay, and the tates of Travancore and Cochin. In Bengal, according to the engal Famine Commission, 1½ million[2] persons died due to the amine and the epidemic that followed in its wake.

The main causes of the Bengal Famine were : (*a*) *Shortage supply of rice in Bengal due to lower yield of the winter crop* 1942 and smaller stocks from the previous year. (*b*) Failure distribution machinery due to the incapacity of traders and

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[1] Indian Year Book, 1943-44, pp. 326-27.

[2] Famine Enquiry Commission Reports on Bengal, p. 110.

the inability of the Government to exercise control over the producers, the traders and the consumers. (c) Loss of imports from Burma which was occupied by the enemy. (*d*) Difficulties of bringing in supplies from surplus areas.

In brief according to the Bengal Famine Commission the famine was due to (*i*) shortage of supply, (*ii*) breakdown of the normal machinery of distribution, and (*iii*) the incapacity of the authorities to meet the situation

The Bengal Famine simply underlined the serious food situation in the country. The situation at present may be regarded as a mere extension of the Bengal situation in 1943. We now turn to the study of this all-important problem, *viz*, The Food Problem.

OUR FOOD PROBLEM

7. Gravity of the Problem. A few years back who could think that our food situation was so serious ? Not many people in India even now realize its gravity. But the fact is that the food problem now overshadows every other problem facing the new Dominion. It is of the topmost priority. It may, in fact, be considered *THE PROBLEM of India*. The sky is overcast with war clouds in many parts of the world and it may come at any moment. If it comes and the stream of food imports is cut off, we simply shudder to think of the consequences. Now the food ships arrive weekly, even daily ; but if supplies are cut off even temporarily, the ghastly Bengal drama will be enacted again almost all over India. The problem is so menacing and we have become so vulnerable.

This problem seems to be baffling the ingenuity of our best brains. It threatens the stability of the infant Dominion. Unless it is effectively tackled, and tackled in time, India may go the way of Burma and China. It is, therefore, a challenge to our statesmen and people. It is really curious, rather paradoxical, that a predominantly agricultural country should not be able to feed its own people and should be living literally from day to day on foreign supplies.

The food problem is serious in another way. It is holding up all our progress not only by engaging almost the exclusive attention of the Indian Government but also by swallowing up our foreign exchange which could well be utilized for importing the wherewithal to accelerate economic development in the country.

8. Nature of Our Food Problem. Our food problem has several facets and it is necessary to look at all of them if it is to be successfully tackled. It is not merely a question of shortage or quantitative question; it is also a qualitative one. Not only have we less food but also an unbalanced food. It is also an administrative problem, *i. e.*, the food produced in the country is not properly distributed and made the best use of. At bottom our food problem is an economic one. We shall now consider these various aspects of the problem.

9. Food Shortage—the Quantitative Aspect. It is difficult to convince many people in India that she does not produce sufficient food for her people. If there is any apparent shortage, they would attribute it to selfishness of the farmers, the wickedness of the black-marketeers and the inefficiency of the Government. It is said that we have been suddenly told that there is food shortage. Nobody ever thought of it before the war, and during the war, of course, it was due to war conditions and hence something abnormal and temporary. But we are painfully reminded that though the war is long over, yet the food shortage remains and some would say it has become worse, because in spite of the 'Grow-More-Food Campaign', food imports are on the increase. The question of food shortage is a mystery to many in India. Mahatma Gandhi was definitely of the opinion that there was enough food for every body in the country and that controls created an artificial shortage.

Let us face the facts. The Famine Commission of 1880 reported on annual surplus of 5 million tons of food grains in India. For some time perhaps improvement in irrigation maintained some sort of correspondence between increase in population and the available food supply. But population seems soon to have outstripped the food supply. The Prices Enquiry (Datta) Committee reported in 1914 that the requirements of food grains for internal consumption have increased in a larger proportion than the total production of food grains." Hence the Malthusian theory had begun to operate and the balance between population and food supply had been upset. After the first three decades of the present century population index in 1931 was 117 (Base 1901), whereas the cultivated area index was 116. Population had thus overtaken the food supply and was leaving it behind.

During the decade 1931-1941, the situation further deteriorated. Area under food grains increased by 1·5% but the production of food grains decreased by nearly 4%, whereas the population increased by over 15% ![1] Population had now left the food supply *far* behind. An elaborate inquiry conducted in 1933 by Sir John Megaw, at one time one of the highest medical authorities in Government of India, revealed that in nearly 40% of the villages, the population was excessive in relation to food supply.

Further, high death rate, appalling poverty, poor physique, low expectation of life and ever-recurring cycle of disease and famine are sure indices of our country being over-populated. "The average expectation of life in India is less than half as many years as that in England while the death-rate is more than double and the infant mortality nearly treble."

Population having exceeded the food production, India had become a net importer of food and imported annually between 1½ and 2 million tons. According to Dr. Radakamal Mukerjee

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[1] See Nanavati and Anjaria, p. 55.

India cannot provide food for about 12% of her people. The present deficit is estimated at 5·3 million tons. During 1948 we imported 28·4 million tons of foodgrains costing about Rs. 130 crores. But in 1949 it is proposed to import only 4 million tons, for this purpose procurement is to be maximised and rationing extended.

Recent political events have aggravated the food situation in India. Separation of Burma in 1937 deprived us of rice and now the partition also has taken away both rice and wheat. With less acreage and far less irrigated area we have been called upon to maintain a disproportionately larger numbers. We have to maintain 78% of the original population with 69% rice production and 66% wheat production and the wheat irrigated area only 54%. The magnificent irrigation works, which were a pride of India, have been all left in Pakistan to support only 20% of the original population. Their gain is our loss, and our Dominion starts with an initial handicap of a very serious nature. A further complication is that cotton and jute regions have gone to Pakistan and our cotton and jute mills may have to close unless we produce more cotton and more jute. No relief can be expected therefore by the substitution of food for non-food crops. Moreover food shortage in India has synchronised with shortage in all the world over. What makes the situation more serious is the tramendous rate at which our population is increasing which is ever widening the gap between the mouths to be fed and the food available.

10. Malnutrition or the Qualitative Aspect : When people think of the food problem they generally think in terms of the quantity of it, but the qualitative aspect is not less important. In India people are not only under-fed but they are also under-nourished, because their diet is unbalanced and is composed of less nutritious items, even though they may be getting quite enough to eat. Sir John Megaw's inquiry referred to above revealed that only 39% people in India were adequately nourished, 41% were poorly nourished and 20% were very badly nourished. The prevailing malnutrition of the people in India has been emphasised also by recent inquiries. According to Nutrition Advisory Committee Surveys conducted in 100 typical rural and urban groups have shown that "Calories intake of some 30% of families is below requirement and that even when the diet is quantitatively adequate it is most invariably ill-balanced containing a preponderance of cereals and insufficient 'productive foods' of higher nutritive value. Intake of milk, pulses, meat, fish, vegetables and fruit is generally insufficient." The daily consumption of milk per capita in India is only 7 oz., as against 39 in Great Britain, 40 in Denmark, 57 in Newzealand and 63 in Finland.[1] It is not to be supposed that rich people necessarily take a balanced food. In order to make the Indian diet balanced it will be necessary to reduce the quantity of wheat, rice and other cereals and add milk and milk products, fruit, eggs, meat and more vegetables. But the trend in Indian agriculture has not been towards producing nutritious food items. The area under fruits and vegetables is less than 3% of the total sown area; and not to speak of dairy and animal foods, even among the cereals the tendency has been to grow more jowar and barely as against wheat and rice which are more nutritive. Taking 1910 as the base year, the index of production of barley in 1938 stood at 157, of jowar at 210, whereas that of rice was only 103·5, and that of wheat (after declining to 97·8 in 1935) rose to 104·2.[1]

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[1] Nanavati and Anjaria, p. 57.

The necessary consequences of malnutrition are high mortality rates especially among infants and women of child bearing age, the prevalence of food-deficiency diseases like beri, beri, rickets and various forms of anaemia and most of other ailments known to the doctors, stunted growth and inefficiency, short duration of life, etc.

11. The Administrative Aspect. The problem of food shortage is rendered more acute by laxity and inefficiency of the administration. On account of panic and nervousness, the grower is not willing to part with the produce. The alarmist speeches made by leaders and government officials, make the farmers cling to what they have produced. Profiteering motive further encourages hoarding, for the grower expects the prices to rise still higher. Stoppage of the ordinary trade channels during the War and lack or curtailment of transport facilities have only tended to immobilise the internal food stocks. High food prices put it beyond the reach of the masses and absence of rationing led to maldistribution of the scanty stocks available, because black marketeers and others who enjoyed increased war time incomes were able to exert a stronger pull. Thus our food problem would not have been so serious if administratively it was handled with speed, efficiency and honesty.

12. The Economic Aspect: As we have already said, our food problem is at bottom an economic problem. In essence it is money famine rather than food famine. The Indian masses lack adequate purchasing power and no wonder that they live in a state of semi-starvation. It is very easy to say that people should take a balanced diet—more meat, more milk and more fruit. But how many can afford it. Dr. Akroyd estimated that a balanced diet cost Rs. 5 nearly per head per month, whereas the ill-balanced common diet cost Rs. 2/8/-. At the present prices these figures will have to be multiplied by five. This means that if the purchasing power of the people is doubled, only then they may be expected to improve their diet. Doubling of a nation's *per capita* income is not a child's play. It only shows how stupendous is the problem. In tackling the food problem we come face to face with the formidable problem of poverty of Indian masses.

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[1] Nanavati and Anjaria, p. 57.

13. What We Ought To Do. Having studied the food problem in its various aspects we are now in a position to see what we should do to tackle it. We have diagnosed the disease, we should now think of the remedy. The food shortage must in the first instance be met by imports and at the same time we should whip up home production by all possible means, *i.e.*, by the fullest use of the paraphernalia of extensive and intensive cultivation till we have attained self-sufficiency not merely in point of minimum ration but better nutritional standards. Dependence for food on others is dangerous, especially in a politically uncertain and unstable world. Nothing short of a revolution in agriculture and a complete overhauling of our land system will enable us to attain the goal of self-sufficiency when population in the country is also increasing at a terrific speed. Our population was estimated at 339 million in 1945-46. In 1948 it was put at 350 million. At this rate the population will be 367 million in 1953, 387 million in 1958 and 407 million in 1963. On the basis of 1 lb. of cereals per day for an adult, our present deficit of 5·3 million tons will increase in each subsequent five-year period to 7·3, 9·9 and 12·6 million tons. It is this menacing situation that we are up against.

Then there is the malnutrition. Food production has therefore not only to be increased but also improved so that it becomes varied, rich and nutritious. A diversified production is needed. Besides cereals we should produce more vegetables and more fruits. Our animal resources have to be fully exploited to provide more meat and more of dairy products. Fisheries have to be developed and poultry farming encouraged to the greatest extent possible. Food supply will have to be related to national health and efficiency. Masses will have to be educated in the contents and benefits of a balanced diet. As Mr. Afzal Hussain remarks in his minute of dissent to Famine Commission Report, 1945 : "It is abundant health, not mere satisfaction of hunger that should be the aim of food policy."

Further, administration will have to be tightened up. Rationing must be extended. Price control measures must be effectively enforced. Procurement procedure must be made efficient. If we are to make the most of our limited food resources, black-markets must be extinguished and hoarding and profiteering treated as the worst crimes.

Finally and ultimately we must eradicate poverty from our land. This may necessitate a radical change in the existing economic order. It is paradoxical that Indians should be poor when their country is so rich in natural resources. This anomaly must go. Industrialization of a high order is needed and agriculture which now is merely a mode of living must be transformed into a business proposition. We must, above all, do something to stem the tide of growing population and stabilize it at a reasonable figure.

14. What We Have Done So Far. A Food Department was created in December, 1942, to deal with control of food prices, supply and distribution of foodstuffs and to co-ordinate civil and military purchases. It was also to pursue the task of food production on an all-India basis. The Food Department had also to arrange for the procurement, transport and distribution of food grains from the surplus provinces for the benefit of deficit provinces. A Food Grain Policy Committee was appointed in July, 1943, which recommended, *inter alia*, stoppage of exports, imports to create a Central Food Grains Reserve, setting up of procurement machinery, securing priority of movement of food crops, introduction of rationing in cities with a population of one lakh and over and drastic enforcement of anti-hoarding measures. A very important recommendation was the launching of the 'Grow-More-Food Campaign.' The Government accepted the recommendations and moulded their food policy accordingly.

The Government's food policy may be studied in two stages. (*i*) Grow-More-Food campaign, 1943-1947; and (*ii*) Five-year Food Plan, 1947-1952.

15. Grow-More-Food Campaign, 1943-47. The following measures constituted the grow-more-food campaign :—

(1) Increase in area under food crops by bringing new land, including fallow land, under cultivation, double cropping and by diverting land from non-food crops to food crops. Measures taken to encourage the bringing of more land under the plough consisted of interest-free-loans, rent-free leases for a term of years, rebate on land revenue assessment, supply of water for irrigation free or at concession rates, the supply of seed at cheap rates, amendment of Tenancy Laws, *etc.*

(2) Increase in the supply of water for irrigation by the improvement and extension of existing irrigation canals, the sinking of additional wells, etc.

(3) The extended use of manures and fertilizers.

(4) An increase in the supply of improved seeds.

Accordingly, the provinces were asked to take up reclamation of new land, sinking of wells, repair and extension of irrigation works, use of improved seeds, increased use of green manures, composts and fertilizers and other measures which could be carried out expeditiously. Other measures recommended in this connection were prevention of depletion of India's cattle wealth, importation of tractors and other agricultural implements, securing fuel for the agriculturists, regulation of crop production, compelling the cultivation of culturable waste land and promoting schemes of agricultural research bearing upon the immediate shortage of food production.

The campaign was conducted by the provincial and State Governments ; the Central Government helped them by giving a subsidy or granting a loan. Grants were generally made on a 50: 50 basis, i e., the provinces and States spent an equal amount out of their own resources. The total subsidy and the loans granted by the Central Government during this period were about Rs. 9 crores and Rs. 7 crores, respectively.

Some idea of the effort made in this connection can be had from the fact that about 50 lakh tons of oil-cake, 4·2 lakh tons of sulphate of ammonia, 20·8 lakh tons of compost and about 9,000 tons of G. M. seeds were distributed for manure. Minor irrigation works undertaken consisted of 64,000 surface wells, about 500 tube-wells, 3 000 tanks and 22,000 other projects. As for the seeds 3 lakh tons were distributed.

What are the results. In spite of propaganda and the stimulus of higher prices to produce more, no striking results have been achieved. The cumulative result of the measures, extension of cultivation, doubling of cropping, diversion of land from non-food crops to food crops, increased irrigation, conservation and development of manurial resources, subsidized manure supplies, distribution of improved seeds, legislation, concessions, compensations, rewards and financial assistance to the growers, has been like that of the mountain being in labour and producing the proverbial mouse. Instead of any substantial improvement in the food situation in the country, we find that it has gone on deteriorating. This in spite of the fact that area under food crops has increased during the period by about 10 million acres and the yield increased by 2½ million tons. The grow-more-food campaign resulted in the reduction of production of cotton and jute without a corresponding gain in the food grains.

Why has the Grow-More-Food campaign failed to create an impression ? There have been difficulties : Reduction of area under cotton creates a shortage of cotton-seed which is an important cattle feed. In spite of expenditure of crores of rupees there was little increase in the irrigated area due, according to Famine Commission, to the departments being short-handed, difficulty of obtaining materials and machinery and shortage of skilled labour. Irrigation has been our greatest difficulty. Only 25% of the food grains acreage is under permanently, dependable perennial irrigation and 75% of our food area has to weather the vagaries of monsoon and Indian monsoon is said to have all the caprices of an oriental potentate. Failure of monsoon in 1945-46 in Madras nullified all the efforts made there under the grow-more-food campaign. Similarly, in 1946-47 the wheat rust practically wiped out the entire wheat crop in Central India.

As regards manures, too, little progress has been made. Due to pressure on land green manuring has made no headway. Bone-meal manure is available in small amounts only. Oil-cakes are used as cattle feed instead of manure. Lack of cheap fuel compels the cultivator to burn the cow dung. It has not been possible to import fertilizers in the quantities that we need. The International Emergency Food Council allocates them and we got only 50% of what we had asked. This is a serious handicap.

Extension of improved seed takes time. There has been a shortage of supply of iron and steel for replacing and making agriculture implements. It has not been possible to import the number of tractors that we required. Then there is the transport bottle-neck.

Above all, the Grow-More-Food campaign covers only 80 lakh acres out of a total of 16 crore acres under food grains *i.e.*, just 5%. It is idle, therefore, to expect any spectacular achievements under these conditions.

From the meagre results of the Grow-More Food campaign we learn one lesson that the ultimate solution of the Indian food problem does not lie in the direction of measures adopted in this campaign. The campaign deals only with the immediate problem of the *existing* deficit for the *existing* population. Its immediate character and limited objective must be borne in mind while judging its results. It is just in the nature of a few measures which were expected to yield quick results to save the country from imminent starvation. There was no plan and no target. For the ultimate solution of our food problem we need a carefully considered plan and a new food policy.

16. The Food Grains Policy Committee, 1947-48. The virtual failure of the Grow-More-Food campaign led to the appointment of another Food Grains Policy Committee in September, 1947, to review the whole question and suggest a suitable policy. In its interim report issued on 31st December, 1947, it recommended a policy of 'progressive decontrol.' This policy, however, miserably failed and a policy of re-control had to be adopted. The final report of the Committee was published in May, 1948.

Referring to the Grow-More-Food campaign the Committee is of the opinion that "the measures which were undertaken were doubtless in the right direction, but the objectives were too diversified, the efforts were inadequate and in most areas the necessary vigour and drive were lacking." In their opinion a radical revision of approach and a new production policy were needed to achieve the desired results.

The Committee points out that the Indian food economy is exposed to a number of risks, the principal of which are: (*a*) The total average production of cereals is short in relation to the requirements of the existing population; (*b*) the annual cereals production is subject to wide fluctuations; (*c*) there are certain chronic deficit areas.

The Committee agrees with the expert opinion that agricultural development in India has not been commensurate with the potential resources and there is a considerable scope for increasing production. A series of large-scale multi-purpose projects will rid Indian agriculture of dependence on the monsoon. Production can be stepped up by intensive cultivation through better irrigation, more manures and better seeds.

For the deficit areas, where rainfall is scanty and agricultural yield is low, it recommends a special rehabilitation programme embracing increased irrigation facilities and dry farming methods combined with deliberate development of cottage and small-scale industries to create alternative avenues of employment.

As for cultural waste, the Committee has expressed the opinion that the whole approach to the problem in the past has been of a haphazard and improvized nature and that there has been no clear-cut programme supported by necessary provision and executed by adequate organization. Reclamation of such lands should be the responsibility of the Central Government. In order to ensure the fullest collaboration between the Central and provincial and State Governments the Committee have recommended the establishment of a Central Board of Agricultural Planning and a Board of Agriculture in each province and State. The Central Board will examine and co-ordinate the provincial and State plans, determine the priorities in the allocation of machinery, manure and other supplies and review the progress from year to year. The Provincial Boards will recommend the lands suitable and available for reclamation, assist the Central Board in reclamation work, advise in the cultivation of reclaimed land and report about the yearly progress. To execute the reclamation plans the establishment of an autonomous organization called the Central Land Reclamation Organization is recommended with a capital of Rs. 50 crores to be subscribed by the Central Government. The actual cost of reclamation will be recovered from the province or the State where land is situated in 20 annual instalments. In the settlement of the reclaimed land care is to be taken to avoid its division into units of less than 200 acres, which is considered as the minimum economic unit for mechanized agriculture.

A Central reserve of one million tons, consisting of wheat and rice, is to be maintained throughout the period of 5-year plan. Importing of food grains is to remain the monopoly of the Government and creation of an autonomous executive is recommended to handle food grain imports.

The Committee has recommended a five-year food production plan in India and the increasing of food production annually by 10 million tons within the shortest possible time so as to remove constant threat of scarcity, famine and helpless dependence on imports.

17. Five-Year Food Plan, 1947-48 to 1951-52. A comprehensive 5-year plan of food production in India has been chalked out in pursuance of the recommendations of the Food Grains Policy Committee, 1947-48. At the end of 5-year period, the food output is to be increased by 30 lakh tons. Each province and State has been assigned a definite quota.

The main planks in the plan are : (1) Grow-More-Food works consisting of surface percolation wells, irrigation tube-wells, pumping installations, tanks and channels, land improvement works including drainage, bunding and reclamation ; and (2) Grow-More-Food supplies consisting of manures, including chemical fertilizers, oil-cakes, green manures, improved seeds, better implements including mechanical equipment. The revised food policy of the Government consists in replacing the Grow-More-Food campaign by a programme of intensive cultivation of that part of food acreage which has perennial or assured water-supply. Sixty lakh acres of land are proposed to be reclaimed which are expected to yield two million tons of extra food. The Government has also decided to encourage the development and use of high yielding non-cereal food crops as bananas, papaya, sweet potatoes, etc. To secure co-operation of the agriculturists, farmers, unions are intended to be established to introduce an element of democracy. The scheme is expected to cost Rs. 282 crores.

18. Work done in 1947-48. Grow-More-Food operations have been intensified. Reclamation work is in full swing in several provinces and States with the aid of the Central Tractor Organisation. In the U.P., 23,000 acres of jungle land were reclaimed during 1947-48 and before the year 1948-49 ends, 60,000 acres will have been reclaimed. The U. P. Government contemplates the extension of the scheme to cover 8,00,000 acres. This wasteland lies in the riverain tract of the Ganga in Meerut District. In about a year the project yielded 300,000 maunds of food grains and cost Rs. 2,500,000 Five thousand refugees have been settled there. In C.P., 10,000 acres of weed-infested land are being reclaimed. During 1947-48, 100,000 acres were proposed to be reclaimed mostly in the U.P, the C.P. and Madhyabharat Union. The Central Tractor Organization of the Ministry of Agriculture works on 'no profit, no loss' principle and trains drivers and mechanics. It is proposed to relaim in all 6 million acres expected to yield two million tons of extra food.

Another Central organization called the Central Ground-water Organization has been created for the construction of tube-wells. It has been assisting provinces and States in procuring materials and equipment and in securing transport priorities. A vast constructive programme has been prepared for constructing tube wells in the U. P. 1915,. East Punjab 1,450, and Bihar 1,200 in three years 1949-50 to 1951-52.

The Government of India has set up a Nitrogen Pool which works on 'no profit, no loss' principle distributing fertilizers among provinces and States.

The target of food production for 1947-48 was 9 lakh additional tons. Actually 7 lakh tons were produced. Failure of monsoon in Madras and disturbed economic and political conditions in East Punjab and West Bengal were responsible for failure to hit the first year s target.

Indian food problem is too big a problem to be tackled in a year or two. To quote Mr. Jairamdas Daulatram, our Food Minister, " Unless we realize that only bigger irrigation schemes would place this country on a more dependable source of supply or unless thousands and thousands of our tube-wells give a more abundance of water supply, and unless lakhs and lakhs of more acres of new land are put under the plough, it is not easy to meet the requirements of a growing population which increases at the rate of 40 lakhs a year." The Government in the U.S A. is spending Rs. 78 per head for improvement of agriculture and we are spending one anna. In India we have six agricultural officers for every 10 million persons, in America they have 400. Can the things go effectively, rapidly and satisfactorily in India in these circumstances ?

Suggestions for further Reading :—

1. Famine Commission Report, 1945.
2. Agricultural Commission Report, 1928.
3. Russel Report.
4. Nanavati and Anjaria—Indian Rural Problem, Ch. IV.
5. Sir John Megaw—An Inquiry Into Certain Public Health Aspects of Village Life in India.
6. Indian Information, March 1, 1949.
7. Food Grains Policy Committee Report, 1943.
8. Food Grains Policy Committee Report, 1948.
9. Radhakamal Mukerjee —Food for 400 Millions.
10. Gyan Chand—Our Teeming Millions.

CHAPTER XV

LAND REVENUE POLICY

1. Introduction. Land revenue as a source of State income has come down to us from times immemorial. In modern times, however, the systems of land revenue assessment, the methods of calculating the charge, and the manner of its collection, have all been attacked from time to time in the Legislature, the Press and from the platform. In this chapter we shall first describe the various land revenue systems prevailing in India, then we shall examine the theoretical basis of the policy of the Government, and finally, we shall evaluate the various reforms that have been suggested to make the system more equitable.

2. Land Revenue Systems. The land revenue systems prevailing in India may be classified from two points of view :

(*a*) Whether the land revenue is fixed once for all, or whether it is revised periodically. The former is known as the "Permanent Settlement," and the latter as the "Temporary Settlement." Here the period of revision varies from 20 to 40 years.

(*b*) The second basis of classification is the responsibility of paying the land revenue. On this basis we have three land revenue systems :—

(*i*) The Zamindari System under which the responsibility for the payment of land revenue rests on the Zamindar or the owner of land who realizes the amount from actual cultivators. It prevails in Bengal and the U. P. mostly.

(*ii*) The Ryotwari System under which every holder of land is individually responsible for payment of land revenue. It prevails mostly in Bombay and Madras.

(*iii*) The Mahalwari System under which the members of village communities or co-sharing bodies are jointly and severally responsible for the payment of land revenue. This system prevails in East Punjab and in parts of the U.P.

Twenty-five per cent of the area is permanently settled under the Zamindari tenure and 39 % temporarily settled under Zamindari and Mahalwari tenure; the Ryotwari tenure covers 36 % of the total area.[1]

3. Permanent Settlement. A "settlement" may be defined as official assessment of land revenue due to Government. It is preceded by a more or less full survey, classification and valuation of the land and an inquiry into the rights of all persons concerned.[1] It is both a fiscal and a judicial operation. A settlement, as we have noted above, may be Permanent or Temporary.

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[1] Nanavati and Anjaria—The Indian Rural Problem, p. 50.

The Permanent Settlement was introduced in Bengal in 1793. The revenue due from the Zamindars was fixed in cash in perpetuity. The rate fixed was 10/11 of the rents realized by the Zamindars at the time, 1/11 being left to the latter as their share. As the value of land gradually rose due to increased security and higher prices of produce, rents were increased and hence the incomes of the Zamindars rose considerably. In 1900, it was officially estimated that the land revenue paid to Government from permanently settled areas amounted to less than Rs 4 crores, whilst rentals in the same areas amounted to no less than Rs 16½ crores.[2]

Permanent Settlement was extended to Banaras in 1795 and also to northern parts of Madras Presidency. There was at one time agitation for the extension of this system. But such proposals were finally rejected in 1883. The Bengal Land Revenue Commission (1938-40) has recommended its abolition.

The Permanent Settlement is supported on the following grounds :—

(a) From the financial point of view it has insured a fixed and stable revenue for the State

(b) It has helped political stability in India by creating a loyal class of Zamindars. (But areas under temporary settlement also enjoyed political stability.)

(c) It has created leaders in the political and social fields who have spread "education", sound ideas and sanitation (This advantage seems doubtful especially the political leadership of a loyalist class).

(d) It is further said that the system has created a prosperous peasantry with resourcefulness and enterprise. (But famines have been as common in Bengal as elsewhere. Only the Zamindars have prospered at the expense of the cultivators and the public treasury).

Permanent Settlement can be beneficial to the people only if all intermediaries between the State and the tiller of the soil are abolished so that the advantages of future increment of the rental should be enjoyed by the actual man behind the plough.

4 **The Bengal Land Revenue Commission (1938-40).** *A case for abolition.* The Bengal Land Revenue Commission was appointed in 1938, under the chairmanship of Sir Francis Floud, to examine the land revenue system of Bengal with special reference to Permanent Settlement. The majority of the Commission favoured the abolition of Permanent Settlement on the following grounds :—

(a) It has deprived the Government of a share of increase in the value of land which has resulted on account of the increase in population and extension of cultivation.

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[1] Ibid, p. 98.

[2] Government Resolution on Land Revenue Policy, 1902, p. 82.

(*b*) It has involved the Government in loss of revenue from minerals and fisheries.

(*c*) It has deprived the Government of intimate knowledge of rural conditions as afforded by the Ryotwari system.

(*d*) It has imposed an iron framework which stifles initiative and enterprise of all classes.

(*e*) It has encouraged excessive amount of sub-infeudation, creating a number of intermediate interests between the Zamindar and the actual cultivators.

In short, Permanent Settlement has resulted in the evils of absentee-landlordism, rack-renting and economic serfdom of the actual cultivator.

The Commission favoured the replacement of this system by a Ryotwari system and added that it was no longer suited to the conditions of the present time. The policy should be to bring the actual cultivators into the position of tenants holding directly under the Government.[1] It is hoped that the recommendations of the Commission will be given effect to without delay.

It is necessary to understand that the objection against permanent settlement is not that it is permanent. It is not to be supposed that making it temporary will bring a millenium, otherwise peasants under temporary settlement should have been very happy. The real issue refers to the fundamentals of land tenure, *i. e.*, the rights of the various parties concerned. Unless these rights are equitably adjusted, there will be no incentive left for efficient use of land and our peasants cannot prosper nor can we have an equitable system of taxation.

What then should be the duration of Settlement? As for the duration of settlement 30-40 years period seems to be quite reasonable. Undeveloped areas should have short-period settlement, so that the State gets an early opportunity to adjust its claims to the changed conditions. Thirty years' settlement removes uncertainty about the State demand for a generation.

5. Temporary Settlements. Temporary settlements are not of a uniform character. Here differences arise due to (1) differences in persons from whom the charge is collected, (2) differences in the period of settlement, (3) differences in the methods of calculating the charge, *i.e.* (*a*) in arriving at the "net assets," and (*b*) the proportion of such assets taken by the Government.

(1) As regards the agency by which the charge is paid, as we have already seen, the determining factor is the system of land tenure, of which we have three types.

(*i*) Zamindari Settlements, (*ii*) Mahalwari Settlements, and (*iii*) Ryotwari Settlements.

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[1] Bengal Land Revenue Commission Report, Vol. I, p. 42.

(2) As regards the periods of settlements, in Central Provinces the period may vary from 20 to 30 years, in Berar 25-30 years, in Madras it is 30 years and in the United Provinces and the Punjab it is 40 years.

(3) As for differences relating to 'Net Assets', the East Punjab Government takes 25% of the net assets, in temporarily settled areas of Bengal the percentage is as high as 70 and in Bombay it is 35%.

We shall now study the assessment under the three systems of settlement: The Zamindari, the Mahalwari and the Ryotwari.

6. The Zamindari Settlement. Permanent Settlement of Bengal is also Zamindari system but we have considered it already. Here we shall take the settlement with Zamindars in Bengal who are under temporary settlement and also the settlement with Talukdars of Oudh.

The usual settlement operations are gone through, *i.e.*, holdings are demarcated, land is surveyed, rights of the various parties in the holdings are recorded and the amount of land revenue payable to the State is assessed. The Settlement Officer ascertains the rental values of lands. As the land-holders in Bengal are usually middlemen, the State takes away as high a percentage as 70 as its share of the rental value. The position of the Oudh Talukdars is also weak and the settlement is virtually with the village communities under them who are asked to pay a little more so that a Talukdari allowance, say 10%, may be paid to the Talukdar from the Government treasury.

7. Mahalwari Settlement. This type of settlement operates in Western U. P. and East Punjab. The land is supposed to be owned by the village communities or the co-sharing bodies. It is joint landlordism as distinguished from individual landlordism prevalent in Oudh (U. P.) and Bengal covered by the Zamindari Settlement.

A survey of all lands is conducted, boundaries of holdings are demarcated and a complete record of rights is prepared of all the parties interested in a particular estate. The land is divided into circles according to productivity.

Net Assets. Rental assets, called Net Assets, of each estate are ascertained which consist of the cash rents received by the landlord and the money value of the benefits he derives from the ownership of land, *e.g.*, grazing rights, fodder, fruit, vegetables, etc. If the land is given rent free or if the land is cultivated by the proprietor himself or if rent is paid in kind instead of cash, then an attempt is made to find out what the cash rent would have been if the estate were given out on cash rent. The landlord's rentals are called 'Net Assets'.

The term 'net assets' and rent are not indentical, but generally a full and reasonable rent paid by a tenant-at-will is regarded as a sufficiently near approximation to the net assets. The assessment in practice is, therefore, based on rent. In the words of the Punjab Land Revenue Committee of 1938, "Net assets of a tract represent what the land of the tract might ordinarily be expected to fetch in rent, less all costs incurred in earning that rent." In other words net assets and normal rents, less costs, are synonymous and, as defined, they may be called landlord's net assets.

The land revenue demand of the State is fixed as a fraction of the 'net assets'. At first the Government charge 80% of the net assets, later according to Saharanpur Rules 1855, it was reduced to 50% , now it is much less, 25% in some provinces.

Land revenue is fixed in the first instance for the entire village and is then distributed over the individual holdings. The village co-sharers are made jointly and severally responsible. A co-sharer of standing, called Lambardar in East Punjab, undertakes to collect the land revenue and pay in the Government Treasury in his representative capacity. A section of the village community, or even an individual co-sharer beyond a certain limit, can insist on a separate assessment or 'perfect partition' as it is called. This is the usual pattern of settlement operations in Mahalwari areas, though there are slight provincial variations. The settlement itself is partly judicial and partly fiscal operation.

In the U.P. actual cash rents, paid at the time of settlement, are taken as the basis. Cash rent is the rule in the U. P. It is therefore not difficult to come across cash rents in each circle and these are made applicable to the holdings which are cultivated by the proprietors themselves. The Government takes a certain percentage of these rentals or 'net assets' as they are called

In East Punjab rents are usually paid in kind and hence probable cash rents have to be determined. A fair rate is ascertained on the basis of rents of typical holdings. If a typical holding in a circle is being cultivated on cash rent, then this rate is applied to all holdings in the circle. In case there are no instances of cash rents, as may generally be the case, then money value of the landlord's rentals received in kind is ascertained on the basis of average prices, average yield per acre, etc. This is the assessment for the circle. It is then distributed over different holdings. In theory, there is joint responsibility for the payment but in actual practice each co-sharer's land revenue can be separately recovered. According to the Punjab Land Revenue Amendment Act, 1929, the Government charges 25% of the 'net assets' as land revenue.

The Sliding Scale System. A new principle of assessment was formulated in the Punjab at the time of the resettlement of Lyallpur district in 1935. This is known as the Sliding Scale System. This was necessitated by the unprecedented fall in agricultural prices since 1930. The object of the new system was "to enable the Government to pitch its demand high enough to take into account the possibility of prices rising to the average level of the last 20 or 30 years, and meanwhile to adjust this demand at each harvest to current prices."[1] According to the old system the standard rates did not change throughout the period of settlement; of course, remissions and relief could be given according to the character of crops. According to this new system the revenue rate, as finally announced for a particular square, represents the maximum which Government can take during the period of 40 years. But the Government will not take these maxima rates unless the general level of prices is at least as high as the commutation prices. If in any year the general price level gives up beyond the commutation prices, the revenue-payers will be given the full advantage of the excess. But if in any year the general level of prices is lower, a remission in the revenue rates will be given the following year proportionate to the difference.

Thus while the Government was "bound not to exceed the maximum rates as fixed" they would "give to the revenue-payer the full benefit of the fall in prices, however great that may be."

The strongest critic of the sliding scale system was Professor Brij Narain. He raised two objections against it: (*i*) That the system takes no account of the costs of cultivation; and (*ii*) that it is based on not real but "theoretical or paper net assets.

"When prices fall heavily," writes Prof. Brij Narain, "and costs less heavily it is possible that net assets may wholly vanish. But the sliding scale assumes that the zamindar always enjoys net assets, provided the fall in prices is not 100 per cent."[2]

Prof. Brij Narain, therefore, recommends that "remissions should be granted according to the fall in net assets, not merely according to the difference between commutation and actual prices."[3]

The Punjab Land Revenue Committee recognized this defect of the system. They agreed that in a period of falling prices any remission given in proportion to the fall in an owner-cultivator's gross income would not be in proportion to the fall in his net income. "But when prices start rising again," they added, "the reverse process sets in, and in time, it may be supposed, the two tendencies neutralize each other."[4]

The recent enormous rise in prices seems to have vindicated this view of the Committee.

In C.P., there are Malguzars who were originally land revenue 'farmers' but who were conferred proprietary rights by the British thus degrading the real owners to the position of tenants. Lest these nominal landlords should exploit the erstwhile owners, the rents payable by the latter to the former have also to be fixed. An elaborate system of soil classification is adopted to fix the rents. The value of a 'soil unit' depends on the average net profits of cultivation for which both fertility and situation are taken into account.

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[1] Ibid, p. 30.

[2] India Before and Since the Crisis, Vol II, p. 611.

[3] ,, ,, ,, ,, ,, ,, ,, ,, p. 617.

[4] Report, op. cit., p. 51.

8. Ryotwari System. (*a*) *Madras.* The assessment of land revenue is, as usual, preceded by village surveys, recording of rights, classification of soil according to productive capacity, etc. The productive capacity is estimated with reference to the yield of an ordinary crop whose money value is found out on the basis of the average price of the preceding 20 non-famine years. From the gross produce are deducted the necessary expenses in order to ascertain net produce. Allowance is also made for seasonal variations, unproductive areas, traders' profits, distance from the market, etc. Land revenue demand is fixed at 50% of the net produce. Actually, however much less is charged, a 50% rule is applicable to the best lands. Some adjustments are made on account of the position of the villages, which are arranged in groups, and the nature of irrigation facilities available. That is why it happens that different rates come to be charged from similar soils. The land revenue is settled every 30 years but enhancement is not permissible unless prices have risen or the Government has made improvements like railway construction. The maximum enhancement permissible is 18¾%.

(*b*) *Bombay.* Here again as a step towards assessment the whole process of delimitation of boundaries, determination of survey numbers and classification of soils is gone through. There is at first group classification of land based on a number of factors, *e.g.*, configuration, climate, rainfall, standard of cultivation, labour supply and wages, variations in the cultivated area during the preceding 30 years, prices, crop yields, expenses of cultivation, rental values, etc. This is known as annewari classification, standard land being called the 16-anna land. A standard rate of assessment is fixed with respect to such land but the standard rate is not to exceed 35% of the preceding 5 years' average rentals of the lands in question. The assessment of each holding depends on its class. If it is 12 anna land then the rate applicable to it will be ¾th of the standard rate.

The Bombay land revenue system was formerly empirical, a lot of discretion being given to the settlement officer. But rental value has now been legally fixed as the basis of maximum assessment.

The Bombay Land Revenue Code (1939) imports to the system of land revenue much needed elasticity by empowering the Government to change the land revenue demand in any year on the basis of a change in agricultural prices.

At the time of resettlement, land revenue can be enhanced but up to a maximum of 25% for the whole group and 50% in the case of an individual village or survey number. Improvements made by the cultivator himself cannot be regarded as a ground of enhancement.

9. Basis of Assessment. From the rapid survey of land revenue systems given above it is clear that the basis of assessment is the rental, though it is called 'net assets' or 'net produce'. In other words the assessing authority takes into consideration what the landlord receives from a tenant or what he would have received if he gave out the land to some body else for cultivation. No heed is paid to the expenses of cultivation or the profits of cultivation. This is very unfair. In India, a country of growing population pressure on the soil, where avenues of employment are limited and where an overwhelming majority of the people must fall back on land as a means of livelihood, the rents will naturally be high, much higher than what tenants could afford to pay if they carried on agriculture as a business proposition rather than as a mode of living. It is not, therefore, fair to take rental as the basis of land revenue.

When agricultural prices fall, as they did in early 'thirties, the cultivator undergoes a positive loss. His income does not cover even the wages of working members of the cultivator's family. They have thus to share for the benefit of the landlord. According to Prof. Brij Narain, the landlord's share contains a large element of loot and "Government's land revenue is a share of this loot."

The Punjab Land Revenue Committee (1938) quoted statistics to prove that only during depression the present mode of calculating the net assets worked to the disadvantage of the owner-cultivator. Prof Brij Narain challenged these figures and said they were 'cooked' and useless for scientific purposes, *e.g.* the wages of an adult worker were calculated on the basis of Rs. 120 a year which is ludicrous. Prof. Brij Narain was able to prove, by taking a reasonable figure for the wage, that landlord's net assets were higher than owner-cultivator's net assets. The whole issue hinges upon the rates of wages taken. The Punjab Committee was not prepared to change the definition of net assets and was in favour of continuing the present system.

Most of this discussion is now academic as the abnormal rise in prices has altered the whole situation and has increased the paying capacity of the owner-cultivator. The rebate of 25% recommended by the Punjab Committee may meet the inequalities, if any, arising out of the indirect estimates of the owner-cultivator's net assets. In a slump apart from remissions and suspensions and temporary relief, the sliding scale system introduced in the newly settled areas of the Punjab should considerably lighten the land revenue burden on the small landholder. In Bombay, too, there is a such provision.

When all is said the fact remains that the 'net assets' are landlord's net assets and have no reference to the costs of cultivation or the net profits of cultivation The just basis of assessment would be profits arising out of cultivation as is the case with income-tax.

10. The Incidence of Land Revenue : Is the land revenue urden excessive ? The defenders of the policy of Government have argued that the burden is far from heavy. Historically the charge is considerably less now than it was either under the Hindu or the Muslim rulers. Thus Manu took from a 1/12th to 1/16th of the *gross produce,* and in "times of war or other public calamity" as much as 1/4th.[1] The share was more under Akbar. The Sikhs in the Punjab took even more. As a rule the demand under the Sikhs varied from two-fifths to one third of the gross produce. The British fixed the maximum demand at one-half of the *net assets,* though actually it came to less than 30 per cent of the rental, Measured in terms of gross produce the average charged for three years ending 1936-37 was only 6·7 per cent. "If we were to take the last three pre depression years," wrote the Punjab Revenue Committee (1938), "the proportion would probably be less than 5 per cent. Compare with this the 33 to 40 per cent taken by the Sikhs a hundred years ago."[2]

The average land revenue per cultivated acre in the Punjab came to Rs. 1-9-2 for three years ending 1936-39.

The following figures[3] give incidence of land revenue per cultivated acre and per head of population in 1939 in some important provinces of India :

INCIDENCE OF LAND REVENUE IN 1939

Province	Per cultivated acre			Per head of Population		
	Rs.	As.	P.	Rs.	As	P.
***Bengal* :—**						
Permanent Settlement ...	1	4	0	0	12	0
Temporary Settlement ...	3	4	0	0	11	0
***Oudh* :—**						
Permanent Settlement ..	1	6	0	1	15	0
Temporary Settlement ...	1	15	0	1	9	0
***Punjab* :** ...	1	15	0			
***Bombay* :—**						
Ryotwari	1	11	0	1	15	0
***Madras* :—**						
Ryotwari	2	8	0	1	15	0
Zamindari	1	6	0	0	14	0

Thus the supporters of the present system argue that (1) the burden of land revenue per acre as well as per head of population is extremely low and as compared with what is used to be in the past, it is insignificant, (2) it is asserted that even if this burden was abolished it would go to a class of rent receivers and would not benefit the actual cultivator,[4] (3) it is suggested that the prosperity of the cultivator has increased under British rule while the tax burden has been reduced, and finally (4) that the land revenue is not a tax but rent, and as such it does not enter into the cost of production and does not affect the prosperity of the cultivator.

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1. Taxation Enquiry Committee Report (1924-25), p.39.
2. Report, p. 11
3. Taken from Wadia and Merchant ; Our Economic problem, p. 246.
4. Anstey: op. cit., p. 377.

Whether the land revenue is a rent or a tax is a controversial issue which we shall examine presently. As regards the other arguments given to support the thesis that land revenue is not a serious burden on the Indian peasantry, the following reply may be given:-

(*i*) Under the Hindu and the Muslim rulers the land revenue was fixed and collected in kind. Therefore its burden varied with the capacity of the assessee to pay. At present even though remissions and suspensions are granted, the charge being fixed in cash, it becomes very oppressive when prices are low. The amount and methods of collection now are much more rigid than they used to be under the Indian rulers.

(*ii*) The pressure on land has considerably increased during the British period due to increase in population and decay of handicrafts. Even after a high percentage of gross produce was taken away by Indian rulers the total produce per family being larger the residue was enough to maintain them in their customary comforts. Now the land per family is very small and hence their total produce is hardly enough to maintain them for the year. Even a small portion of this small supply, if taken away, may impose painful burden on the family resources.

(*iii*) Even if we accept the proposition that the present burden is lighter than it used to be several hundred years ago, it does not justify the present burden if it is an unjust one. We must not apply the 16th century standards of justice when we are living in the 20th century. We must judge the justice of the land revenue on its merits, according to modern theories of taxation.

(*iv*) To say that the benefit of abolition will go only to the rent-receivers will hardly stand examination. Many land revenue payers are peasant-proprietors ; they will be directly and immediately benefited from any reduction or abolition of this charge. As regards the big absentee landlords (if they have to continue at all) the burden is too light rather than too heavy. They should pay higher amount not as land revenue but as tax on agricultural incomes.

(*v*) As regards the increase in the prosperity of cultivators this is not a definitely established fact. Opinions differ whether the average cultivator today enjoys a more wholesome food, clothing and health than he used to do in centuries gone by. Even if his poverty has decreased (we can hardly talk in terms of prosperity), that is no justification for putting a burden on him for which his economic capacity does not befit him. Have the classes who have really prospered under the British rule paid their quota in similar proportion ?

(*vi*) The real reason why relief is denied to the peasant-cultivator is that if uneconomic holdings are exempted from land revenue, the effect on Government finances will be disastrous.

Now let us examine the theory that since land revenue is not a tax but a rent, suggestions for the application of the principles of taxation to it are not justified, nor does its payment affect agricultural prosperity since it does not enter into cost of production.

In this connection we have to examine two propositions. (*i*) Whether land revenue is a tax or a rent. (*ii*) In practice, even if it is a rent, does the cultivator get reasonable return for his labour and enterprise before he pays the land revenue. In other words, does it come out of the true economic rent of the land or does it encroach upon the fair returns to the cultivator as labourer and entrepreneur.

Whatever be the nature of land revenue it must be adjusted to the taxable capacity of those who pay it and it must be levied in accordance with the well-known canons of taxation. The most important canon, *viz.*, Equity, will be satisfied if uneconomic holdings are exempted from land revenue and if the principle of progression is introduced. Further, it must be made elastic by making it adjustable to climatic conditions and price changes.

11. Tax or Rent. Whether the land revenue is a tax or rent is an old controversy and has little practical bearing on matters of policy. Baden Powell has called it a profitless "war of words". Even if we agree that the State in India is the universal landlord, and hence the land revenue is a rent, this does not justify the imposition of this charge without reference to the welfare of the people. Even a landlord, if he is enlightened, may exempt uneconomic holdings from rent. When the landlord is also the State the welfare of the subjects, and not any theoretical right to the imposition, should be its primary consideration. If the small holder requires relief, he must get it whether the payment he is making as land revenue is theoretically regarded as a tax or a rent.

Whether land revenue is rent or tax will depend on answer to the question : "Who owns land ?" It will be rent if the State is the owner and tax if people are the owners. There is little evidence to prove that the State in India is the landlord. The State in India cannot base its claim to ownership of land on history. According to Wilson, "The proprietary right of the sovereign derives no warrant from the ancient laws or institutions of the Hindus and is not recognised by modern Hindu lawyers as exclusive or incompatible with individual ownership." As for the Muslim law, we have got the authority of Col. Galloway : "The soil was the property of the cultivators as much as it could be. Law gave no power, policy gave no motive to remove him, to disturb him so long as he paid his taxes ....The right of the Indian husbandman is the right of possession and of transfer...........In what respect then, is his right of property inferior to that of the English land-holder ?"

Even in modern times, the State in India has not claimed the right to the ownership of land. As Baden Powell has pointed out with regard to the Zamindari tract, Government has definitely stated that property right in the soil "has been declared vested in the landholders". In Ryotwari districts the State has a "residuary right" with regard to vacated and waste land, but has no power to eject a cultivator "except as a result of process in default of revenue payment." "Hence," he concludes, "the 'recognized ownership' of Government does not exist at all in a large part of India, and in other parts only in a very qualified manner."[1] State being not the landlord, land revenue cannot be called a rent.

But this charge contains features of a tax as well as a rent. Since it is a compulsory levy of the State periodically collected it resembles a tax. But since almost[2] all lands have to pay it and it has no element of progression, and in some provinces it is in addition to a tax on agricultural incomes leviable also in others, one might think it as a rent. "Perhaps it would be nearest to say," remarks Vera Anstey, "that it is a tax on rent, and that as a large proportion of the actual cultivators in India is in a sense 'landowners,' there is no doubt that the Government is receiving as revenue an income that would otherwise go into their pockets."[3]

But whether it is a rent or a tax, it is a charge made by the State and hence it must be adjusted to the cultivators' 'faculty to pay' and must be made to conform to canons of taxation as pointed out above (Sec. 10).

12. Does the Indian Land Revenue Satisfy the Canons of Taxation ? Equality, Certainty, Economy, Convenience, Elasticity, Productivity and Simplicity are the well-known canons of taxation. The amount to be paid is certain but the basis of assessment is not clearly understood. It thus lacks simplicity and only partially satisfies the canon of Certainty. Convenience is satisfied as land revenue is collected in instalments and at the harvest time. The land revenue establishment has a big bill but it cannot be considered all as cost of collection, as the revenue staff performs other administrative duties too. Hence 'Economy' canon cannot also be regarded as infringed. The canon of Productivity is satisfied as the yield of this tax is very large and is the mainstay of the provincial Governments. It, however, lacks elasticity, for either it is fixed in perpetuity, as in Bengal, or for 30-40 years. In Bombay and East Punjab, however, a measure of elasticity has been imparted to land revenue in recent times. The most important canon, *viz.*, Equity, is violated in the fact that even uneconomic holdings have to pay land revenue and there is no progression. The land revenue is, therefore, oppressive and iniquitous, on the whole.

13. Is Land Revenue Rent in the Ricardian Sense ? According to Ricardo, rent is a surplus above costs. But in India most of the land-holdings are uneconomic leaving absolutely no surplus. Land revenue in such cases impunges on the barest means of subsistence. Not to speak of a surplus, even the minimum costs are not recovered from income from land. If the farmers were to calculate the wages of those members of the family who work on the field and add them to costs of cultivation, agriculture, in normal times, will be in most cases a losing proposition.

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[1] Quoted by V. Anstey op. cit., p. 376.

[2] Some lands are revenue free grants.

[3] V. Anstey, op. cit., p. 376.

On the other extreme are the big landlords on whom the land revenue sits very lightly. In their case it may be much less than the economic rent. In between these two extremes land revenue may coincide with Ricardian rent but that would be by accident and not by design. Actually there seems to be no necessary connection between our land revenue and the Ricardian rent.

14. Lines of Land Revenue Reform. The Indian land revenue system has met with devastating criticism both from the experts and the lay politicians. It largely rests on the maxim : 'An old tax is no tax." The main objections to the present system of land revenue are :

(*a*) The burden is oppressive on the majority.

(*b*) It violates the canon of equity as there is no minimum exemption and no progression.

(*c*) The basis of assessment is unjust and obscure.

(*d*) The system lacks elasticity as the land revenue is fixed either permanently or for a long period of 30 or 40 years.

(*e*) There is rigidity in collection.

As far as the reforming of the present system is concerned, as already said, whether the land revenue is a tax or a rent is a matter of no consequence. Various kinds of suggestions have been made to improve the present system. Usually two objects are kept in view in this connection : (*i*) relief to the holders of very small holdings; (*ii*) more equitable distribution of the burden of taxation as between the larger land revenue payers and payers of other forms of taxes.

The various suggestions for reform may be indicated as under.

(1) Abolition of the Permanent Settlement. This we have already considered and approved.

(2) Some suggest the abolition of the land revenue as such and substitution in its place an income-tax on incomes derived from agriculture.

(3) Others would like to apply the principles of income-tax to land revenue, *i.e.*, exemption of small holdings and imposition of a graduated rate on larger owners.

(4) Finally, some writers expose the defects of the manner in which net assets are calculated especially in the Punjab and would like to make this estimate more scientific.

15. Relief to The Small Holders. One school of thought suggests the entire abolition of the land revenue charged. The abolition of land revenue aims primarily at relieving the small holder of the burden of this payment. In this connection, several questions have to be carefully considered before any decision can be taken. They are :—

(*i*) Is it desirable and justifiable on political, economic and ethical grounds that the small holder should be entirely freed from making any direct contribution to the revenues of the State ?

(*ii*) If he is given this relief, how far will it improve his standard of living or methods of production ?

(*iii*) What will be the extent of the financial loss to the Government ? Could this loss be made up by alternative sources ? If not, what are to be the likely consequences of this curtailed Government expenditure on the welfare of the people—including the exempted small holders ?

Let us consider these questions.

(*i*) The land revenue assessment and collection necessitate the keeping of records of land, its produce and property rights, etc., and these records are of great value to the administrator and the economist. Politically land revenue payment is linked with the voting right, though some other system of suffrage could be devised. But these are only incidental advantages. The system must be justified on more fundamental grounds. The Punjab Land Revenue Committee drew attention to the ethical and social aspects. The land owner, especially in the Punjab, enjoys special privileges[1] and protection given by the State. Hence he should make some contribution to the State treasury by virtue of his being a landholder. One witness[2] asserted that the small holder would not like being exempted from the land revenue charge which enhances his self importance, dignity and *izzat*. This appears very doubtful. Small holders would jump at the idea of exemption. As regards the "privileges", the protection given by the State to a class liable to be exploited by the still more privileged classes, cannot be put forward as a justification for imposing a tax on the former, if they have no capacity to bear this burden and if other classes are not taxed to the same degree of burden. Hence land revenue charged from the

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1. "The land of these Agriculturists cannot be sold in execution of a money decree or mortgaged to a non-Agriculturist for more than 20 years. A landowner cannot be evicted by a civil court without the intervention of the revenue authority, and he is entitled to retain enough land for the maintenance of himself and his family. His plough, cattle, implements and seeds cannot be attached If he is sued and his interest charges exceed certain statutory limits, they can be reduced. The burden of proving that consideration as passed is on the money-lender nor can a decree be passed against him for more than twice the principal. When he dies his ancestral land is not liable for the payment of his debts unless charged upon it. Finally under an Act of 1934 Conciliation Boards are being set up all over the province to settle his debts." Report p. 74.
2. Written memorandum by Sir G. De Montmorency. Report, p. 176.

small holders cannot be justified on economic, political or ethical grounds.

Regarding No. (*ii*) above, Mrs. Anstey holds that "judging from past experience, it appears likely that part of the increased income would be squandered on increased expenditure on ceremonies, and that the rest of it would be swallowed up by an increase of population, rather than in any improvement in the standard of life or methods of cultivation."[1] This again is a very flimsy argument. Does the Government, while considering taxes on other classes of population, probe into the way the money would be spent if the tax is reduced or abolished ? Certain social ceremonies are as important to the poor cultivator as are various kinds of recreations and social expenditures to the better placed classes. Of course the poorer sections should be instructed as to the manner in which they can get the best advantage from their small incomes. This should be done by extending educational facilities—not by taking away a part of their meagre incomes in the form of a tax.

(*iii*) Finally, we come to the financial consideration. If land revenue is abolished and an income-tax is imposed on agricultural incomes with the usual exemption limit, the revenue of the Government will fall very seriously. Even from the bigger landlords the income tax charge will bring much less than the land revenue charge. The latter is roughly 25 per cent of their net income from land. The average income-tax rate will be much less. Even giving exemptions to small holders without abolishing the charge on the larger land-holders will mean a serious curtailment of revenue. The Punjab Committee estimated that if those who paid less than Rs. 500 (with net assets of Rs. 2,000—same limit as income-tex) were exempted, the total "land revenue will be reduced from R. 4½ crores to 30 to 40 lakhs."[2] Even if incomes up to Rs. 250 were exempted, the Committee estimated the loss at over Rs. 2½ crores. In terms of land revenue if only those who pay Rs. 10 a year or less are exempted, the loss to the Government will be to the tune of Rs. 78 6 lakhs. Thus while Rs. 10 a year will make no significant change in the economic position of the small holder it will create a serious gap in the finances of the Government and will curtail useful activities of the Government unless this gap can be made up from some other sources. "In a poor country like India," in the words of the Punjab Committee, " the amount of revenue that can be raised from the better-to-do classes is not very large, and the process commonly known as 'soaking the rich,' which is fruitful enough in a wealthy country like England, has only a very limited scope. If any considerable sum has to be raised, it cannot be easily done without spreading the fiscal net over the whole community and levying a small sum on as many people as possible."[3]

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[1] Anstey : op. cit., p 377.

[2] Report, p. 72.

[3] Report p. 73.

We are inclined to agree with this view. Unfortunately, it is impracticable to relieve the small holder from the entire burden of land revenue. We, however, endorse the recommendation of the Punjab Committee in which they recommended[1] relief to the owner-cultivator by reducing his charge by 25 per cent after assessment at the usual rate.

Suggestions For Further Reading

1. Nanavati and Anjaria—The Indian Rural Problem, Ch. III, pp. 49-53, Ch. VIII
2. Brij Narain—India Before and Since the Crisis. Agricultural Worker and Punjab Land Revenue Committee.
3. The Punjab Land Revenue Committee Report (1938).
4. The Bengal Land Revenue Commission (1938-40).
5. Taxation Enquiry Committee Report, 1924-25.
6. Jathar and Beri—Indian Economics, Vol. I, Ch. XII.
7. Wadia and Merchant—Our Economic Problem.

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[1] Report, p. 64.

CHAPTER XVI

INDIAN INDUSTRY

Indian Industries in Retrospect

1. India's industrial past has a specially heartening message for us in the present. India had attained a very high position in the world of commerce and industry when the rest of the world was still in a semi-civilized state. " At a time when the west of Europe, the birth-place of modern industrial system, was inhabited by uncivilized tribes, India was famous for the wealth of her rulers and for the high artistic skill of her craftsmen."[1] Edward Thornton also remarks in a similar vein: "Ere yet the pyramids looked down upon the Valley of the Nile, when Greece and Italy, those cradles of European civilization, nursed only the tenants of wilderness, India was the seat of wealth and grandeur."[2] Egyptian mummies dating from 200 B. C. have been found wrapped in Indian muslin of the finest quality."[3] Marco Polo, visiting India in the latter part of the thirteenth century, said that India was keeping up its ancient reputation as one of the chief marts of Asia. Such quotations can be easily multiplied but it is hardly necessary to do so. It is generally recognized that India can show a brilliant—almost a dazzling—record of her past achievements in the field of industry.

2. The Decline of Indian Industries. But this enviable position that India had built up was not destined to last for ever. A number of factors conspired to demolish this proud structure of ours.

(*i*) *Extinction of old Indian Courts.* Indian industries prospered under the fostering care of the indigenous courts which disappeared with the consolidation and centralization of the British Power. Naturally, these industries could not survive when their patrons disappeared.

(*ii*) *Adverse Western Influence.* The new aristocracy educated on Western lines was a poor substitute for the old Indian nobility. As Dr. Anstey remarks : "Richer classes in India began to adopt European fashion and either purchased imported goods or were content with cheaper indigenous products sold to Europeans that previously they could have scorned." There was a craze for everything Western.

(*iii*) *The British Policy at Home and in India.* In their desire to develop their own industries and protect them from foreign competition, British Parliament imposed almost prohibitive duties on Indian cloth. Between 1700 and 1829 dyed calicoes were altogether prohibited and certain other types had to pay duties varying from 30 to 80%. R.C. Dutt mentions in a letter dated 17-3-1769, written by the Directors to the East India Company authorities in India, asking them to encourage the production of raw silk and discourage the manufacture of silk fabrics and that the weavers should be forced to work in the Company's factories. Professor Horace Wilson remarks: "Had not such prohibitory duties and decrees existed, the mills of Paisley and Manchester would have been stopped in their outset and could scarcely have been set in motion even by the power of steam." Again, "the foreign manufacturer employed the arm of political injustice to keep down and ultimately strangle a competitor with whom he could not have competed on equal terms."

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[1] Report of the Indian Industrial Commission, 1918, p. 1.

[2] Thornton, Edward—*History of British Empire in India*, 1841. Vol. I, p. 3

[3] Ranade—*Essay on Indian Economics*, p. 171.

The subordinate Government in India faithfully dittoed the policy of the Home Government. Every effort was made to dump English goods in India and discourage and suppress the Indian manufacturers.

(*iv*) *Competition of Machine-made Goods.* A very important cause was the competition of machine-made goods, facilitated and rendered more effective by the development of the means of communication and transportation. The old handicrafts in which the craftsman took an inordinately long time in making an article, however beautiful and artistic, were bound to wither away in the face of the Industrial Revolution that had taken place in foreign countries.

The present position is that some of the ancient industries have survived and several modern large-scale industries have also been developed. In this chapter we shall study the cottage industries and in the next and subsequent chapters modern large-scale industries and their problems.

Cottage Industries.

3. The Role of Small-scale Industries in Modern Industrial Structure. India occupied a leading position in the industrial world in the past. The old Indian industries were mostly carried on on a small scale and belonged to the "cottage" category. We have also seen that on account of some adverse circumstances, the Indian industries, which were once in a very flourishing state, began to decay.

But it is wrong to think that a large scale industry can kill a small-scale industry altogether. As Prince Kropotkin remarks: "Only a superficial and bookish acquaintance with industry could permit the economists to assert that law (necessary disappearance of the small industry) for half a century without attempting to prove it. The petty trades are not killed and cannot be killed: like Proteus they ever change their aspect."[1] Small-scale production has advantages of its own.

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[1] Quoted by Suhasrabuddhe in a paper read in the Industrial Conference in 1912.

In recent times, small-scale industry has been helped specially by some new favourable factors, *e.g.*, the development of cheap electric power which can be supplied in small units, growing taste of the richer classes for artistic and luxury goods, the growth of the co-operative movement and wide diffusion of technical knowledge. We thus find successful small industries existing side by side with the large-scale industry. They can be complementary rather than competitive.

Even in countries which are the classic lands of big business, small-scale industry occupies a definite and important place. In France, more than 99 per cent of the industrial establishments employ less than 100 workers each. In Germany, 12·6 per cent of the total population derive their livelihood from handicraft work. In the highly industrialized city of Birmingham, at least 50 per cent of the industrial establishments are small scale employing less than 50 workers.[1] In Japan, 53 per cent of the industrial population still gains its livelihood in small undertakings employing less than five workmen.[2] In Belgium, Holland and Switzerland several types of goods are manufactured on a small scale. In almost every country the small-scale industry is alive and kicking and plays a very important role.

4. Causes of the Survival of the Small-scale Industry in India. When large-scale industry has not been able to squeeze the small industry out of existence in the countries in advanced stages of industrialization, it is not difficult to understand the persistence in India of the cottage industries. In spite of competition from home and abroad, the cottage industries in India have managed to live. The causes that account for the survival of the cottage industries can be briefly stated thus.

(1) Inertia and stay-at home habits of the cottage worker have kept him moving in the old groove. This coupled with the lack of alternative openings has made the worker either unwilling or unable to leave his hereditary occupation

(2) Prevalence of the caste system is responsible for the perpetuation of the caste occupation even when it has ceased to be paying.

(3) Working in one's own house assisted by the loving hands of the members of one's own family and working at one's own will have got their own attractive side. The atmosphere is very congenial and it gives him a feeling of being a master in a place of business. Even a semblance of independence, if not the substance, is not worth throwing away, especially when there are long and honourable traditions behind a craft.

(4) Agriculture, which is the occupation of about 65 per cent of our people, affords at best only seasonal employment and there is enforced idleness for three or four months in the year among agricul-

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[1] Radha Kamal Mukerjee—*Economic Problems of Modern India*, 1941, pp. 20-25.

[2] Kubbard—*Eastern Industrialisation and its Effects on the West*, 1933, p. 114.

turists. There are several supplementary industries which can be dovetailed with agriculture. They have, therefore, been continued as a "second string to the bow".

(5) There is still in India a large number of people who appreciate and are prepared and able to pay for a work of art. Their patronage has arrested the decline of many an old craft.

(6) There are certain articles, the demand for which is local, fitful or too limited, and they, therefore, do not lend to machine production.

(7) The ability of the cottage worker to introduce an element of variety to suit the tastes of different shades of customers has stood him in good stead and saved him from destruction. Proximity to market enables him to study better the wants of his customers and acquire an intimate knowledge as to what would satisfy them best.

(8) The isolation of the village has not yet been completely broken and many village crafts still thrive in places inaccessible to the machine-made goods.

(9) Some artisans have adapted themselves to the new conditions and have saved their craft by taking advantage of new materials or new tools. The weaver has taken to the mill-made yarn and the flying shuttle, the dyer to the synthetic dyes, the tailor to the sewing machine, the brass and copper-smith to the sheet metal and black-smith to the machine-rolled sections.

(10) The Indian States in recent times seem to have veered round to some extent and hand-made goods are again in favour. Indian sentiment now favours and strengthens the "buy-Indian" campaign and the cottage industries have derived some benefit. Mahatma Gandhi has lent his powerful support to many tottering crafts.

(11) The Central and provincial Governments, too, in recent years have given liberal grants for fostering the cottage industries. Thus the Congress and the Government have been one in their solicitude for the cottage worker.

These are some of the factors which explain the wonderful vitality manifested by the cottage industries in India.

5. Present Position of Cottage Industries. All cottage industries in India are not in the same position. Their present condition varies with the intensity of machine competition which each had to face. Some crafts have died out altogether. Dacca muslin, for instance, will not be heard of any longer. There are others in a dead-alive condition, *e.g.*, hand-spinning, and there are still others like hand-loom weaving which in recent years have shown signs of rejuvenation.

India still remains a country of small-scale production from which the bulk of its population derives its subsistence. The whole of the retail trade is of course a small-scale business. Agriculture is carried on on a small scale. Besides, there are numerous industrial arts and crafts offering employment to millions of people in the country—Dr. Radha Kamal Mukerjee thinks 14 millions is an underestimate.[1] Handloom weaving alone employs 5 million people, *i.e.*, equal to the number employed in all organized industries.[2] There are innumerable small factories or workshops dotted all over the country, and in Calcutta alone their number is estimated to be more than 10,000.[3]

Prof. Radha Kamal Mukerjee has given a long list of cottage industries which are still being carried on in different parts of the country.[4] To mention only a few : Basket-making in several villages of Jaunpur, Allahabad and Banaras districts ; coir-spinning, wicker work and mat-making in Malabar and Southern and Eastern Bengal ; silk-worm rearing in Assam, lac and toy manufacture in Meerut, Budaun, Mirzapur, etc. (U. P.), at Bolpur (Bengal), Chennapatna (Mysore) and Kondapalle (Madras); carpet-weaving at Amritsar, Mirzapur and Banaras ; silk-weaving in Murshidabad, Malda, Madura and Bhagalpur ; artistic clay modelling in Mirzapur (U.P.) and Nadia (Bengal) ; lungis and sarees at Tinnevelly (Madras) ; glass bangles at Fatehpur and Firozabad (U. P.). Dr. Mukerjee remarks : "Every district contains one or more villages where cottage production like cloth and silk weaving, wood-work, gold, silver, copper, bell-metal, lacquer, bamboos, cane, pith, rattan and leather work is carried on to a high standard of artistic excellence." Handloom spinning and weaving are carried on all over the country. Soap-making is also being extensively carried on.

In East Punjab several cottage products have acquired great celebrity, *e. g.*, carpets of Amritsar, durries of Ambala, furniture of Kartarpur, woollen blankets of Panipat and Kulu, hosiery goods of Ludhiana, locks of Rupar, woodwork of Hoshiarpur, tubs and buckets of Jullundur City, silk material of Amritsar and Jullundur, Khadi industry of Ludhiana, agricultural implements at Batala and Jullundur.

It is not possible to discuss here all the cottage industries mentioned above, although each one of them is being carried on very extensively supporting a large number of people. Of these the textile group occupies a specially important place. We shall consider this group in a little detail.

6. **Cotton Handloom Industry.** We have already seen what a position of incredible perfection had India attained in the past in the matter of making cotton cloth. It has been stated that a sample examined by Dr. Taylor in 1846 came to 250 miles to a pound of staple which, according to modern standards, corresponds

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[1] *Economics Problems of Modern India*, 1941, p. 20.

[2] Ibid, p. 25.

[3] Harold Butler—*Problems of Industry in the East*, 1938, p. 13.

[4] *Vide Economic Problems of Modern India*, 1941, pp. 14-21.

to 5,245 counts. This is a feat which modern machinery has yet failed to accomplish. But this position has been lost completely.

The advent of the cotton mill industry which happens to be more vocal and impressive seems to have eclipsed the handloom industry and an impression has gone round that the handloom industry is in a decadent state or that it is unimportant. This impression is undoubtedly wrong.

According to the Indian Tariff Board, 1932 (Report p. 157), the hand-loom industry supported not less than 10 million people—a number exceeded only by agriculture. The same Tariff Board estimated the number of hand-looms in the country to be 2,500,000. One centre in Bihar alone produced khadi worth Rs. 1½ lakh. In an exhibition organized by the Seva Sangh Conference at Malikanda in February, 1940, a piece of fine Dacca muslin was exhibited which measures 11 yards but weighed only 10 tolas The consumption of yarn by the hand-looms and the production of cloth has been steadily increasing. It has increased from 220 million lb and 880 million yards, respectively, in 1900, to 479 million lb. and 1,916 million yards in 1938 ; the improvement during the last 20 years has been specially remarkable. The hand-loom industry is thus neither dead nor decaying, nor by any means unimportant.

The hand-looms turn out specialized types of cloth which are not suitable for mass production. Further, the hand-made cloth is considered by many to be much better than mill-made cloth, for it is thought to be cool in summer, warm in winter, absorbent of perspiration. Cheapness and simplicity of weavers' appliances, conservatism and inertia of the weavers, pleasure of working in one's own home with free and willing assistance of the inmates and proximity to the market are some of the other factors which are responsible for the survival of the handloom industry.

The Indian National Congress and Mahatma Gandhi, in particular, through the activities of the All-India Spinners' Association, have assisted in the revival of this industry. The Government, too, has not lagged behind. In 1934 was inaugurated a five-year scheme, with an annual contribution by the Central Government of Rs. 5 lakhs towards the expenditure incurred by the provincial Governments in the development of this industry. The activities of the provincial Governments, under the Centrally financed schemes, gave a great impetus to the industry by the introduction of improved looms and appliances and new and marketable designs, by improving preparatory and finishing processes, supplying intelligence regarding rates of materials and markets, assisting the marketing of cloth by subsidizing private firms, opening depots, etc.

No doubt much useful work has been done, but owing to the proverbial apathy and conservatism of the Indian weaver, progress must needs be very slow. The scattered nature of the industry prevents effective organization and the illiteracy and appalling poverty of the weavers hampers all kinds of progress. All efforts must be considerably intensified if any appreciable progress is to be made. The organization of the weavers on the factory basis under capitalistic aid and direction might remove some of their difficulties. The sphere of the mills and the hand-loom should be statutorily defined and the mills may be forbidden to produce cloth below certain counts. Excise duty, with a corresponding increase in the protective duty may be levied on the mill-made cloth and proceeds utilized to assist the hand-loom industry. If all possible steps are taken to help the industry and the process of rejuvenation continues, the hand-loom industry may be assured of a respectable place in our economic life.

7. **Silk Industry.** The silk industry in the past was one of the flourishing industries of India. Indian-made silk cloth found ready markets abroad. But causes similar to those affecting the cotton handloom industry, *viz.*, competition from abroad, general vitiation of tastes demanding cheap things, disappearance of the native courts and the preference of the new nobility for foreign articles and the policy of the British Government and that of the East India Company, also adversely affected the Indian silk industry. Appearance of artificial silk was another nail in its coffin.

The position of the Indian silk industry is, therefore, far from being enviable. The Indian silk is being looked down upon even in the home market. The reeling is so bad that the home weavers prefer to use silk reeled in China and Japan. The Indian silk is exported in the *waste form* so that the reeling may be done abroad. Kashmir, Mysore and Bengal are the important centres of the industry, and among the chief cities engaged in silk weaving may be mentioned Murshidabad, Tanjore, Banaras, Surat, Amritsar and Madura.

In recent times the decaying silk industry has attracted the attention of the Government and of patriotic Indians who have shown an increasing tendency to patronize home-made goods. In 1935, the Government set up Imperial Sericultural Committee, and on its recommendation, grants to the tune of Rs. 93,000 were sanctioned for financing schemes calculated to produce disease-free seeds and eradicate silk-worm diseases. Also, an annual grant of Rs. 1 lakh for five years was given by the Central Government in 1935 for the assistance of the industry. High import duty on silk, and the protection granted in 1934 have also been helping the industry. Silk cloth being of the nature of a luxury article, its demand must remain limited at home and it would be too much to expect it to invade foreign markets in competition with Chinese, Japanese and European silk. We are thus constrained to arrive at the conclusion that the Indian silk industry has not the same hopeful future as the cotton hand-loom industry.

8. **Woollen Industry.** The most important woollen manufactures are shawls, carpets, blankets, felts, puttoos and pashmina. At one time all these branches of the woollen industry were quite prosperous, but circumstances in modern times were not favourable to the continued prosperity of this industry.

Shawls of Kashmir were once very famous and commanded fabulous prices. The decay of Indian princedoms led to a serious contraction, almost an extinction, of the home demand. But the demand from the Europeans arrested the decline of the industry to some extent. European demand, however, was for distinctly cheaper and, therefore, inferior shawls. This led to the deterioration of the quality. A severe famine in Kashmir in the early 'thirties of the last century was a great blow to the industry. Franco Prussian War in 1871 led to the cessation of European demand, and manufacture of shawls at Paisley in England was responsible for further worsening the conditions of the industry. Kashmir Pashmina —hand-woven shawls—enjoy great reputation even today and have a connoisseur's market in the Valley itself. Namdas embroidered with woollen thread in attractive designs travel very far, as far as the U.S.A.

The carpet industry throve under the fostering care of the Moghul Emperors. But it shared the fate of the Moghul Empire. With the use of aniline dyes and with the introduction of cheap designs under the dictation of foreign markets, all art and quality disappeared from the Indian carpet industry. Carpet industry, therefore, is practically dead as a cottage industry, and most of the Indian carpets are now made in factories and jails. Amritsar (East Punjab) is a very important centre of carpet industry. Other centres of the industry are Bikaner, Mirzapore, Ellore and Agra.

The blanket industry has altogether a hopeful future. Wool used in blankets can be had in all parts of the country. There is also a large home market. There is practically no foreign competition in the line. With a little care and attention it should be possible to introduce the necessary improvements and put the industry on the road to prosperity. The World War II brought large orders for blankets and gave a fillip to the blanket industry.

9. **Hand-made Paper Industry.** Indians have been conversant for centuries with the art of making paper by hand. The oldest paper manuscript found in India dates from the first quarter of the thirteenth century.[1] Kashmir has been famous for its paper since Akbar's time. In Ahmedabad, too, paper-making was a prosperous trade and in 1848, 800 men and boys were daily employed in paper works[2] Only a generation back a large class of Muslims, known as Kagjis was engaged in the industry in the districts of Hoogly, Howrah and Murshidabad in Bengal.

Even now in several parts of the country like Kashmir, Hyderabad, the U P., the C. P., Bombay and Madras and in jails throughout India paper is made by hand.

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[1] *Indian Munitions Handbook*, 1919, p. 246.

[2] Kirk—*A Monograph on Paper Making, Bombay Presidency*, 1902, p. 2.

Strenuous efforts are now being made to revive this ancient and useful art. The All-India Village Industries Association has started manufacturing paper from straw, waste paper, jute plant refuse, and other materials in Bengal, Bihar, Bombay, Orissa and elsewhere. Production of hand-made paper has been taken up by the Banaras University. At the instance of the U. P. Government the Forest Research Institute, Dehra Dun, has undertaken experiments to see how this cottage industry can be developed and its methods improved. If pulp is supplied by the paper mills, it will facilitate the resuscitation of this ancient industry

There is a great scope for this cottage industry. The hand-made paper is in good demand in Europe and America. In China and Japan large quantities of paper are made by hand. In England, too, the most expensive writing and drawing papers are made by hand. But if this cottage industry is to occupy its due place in India, it will be necessary to overhaul this old industry, introduce new methods and organize it on co-operative lines to obviate the difficulties relating to finance and marketing.

10. The Ills of the Cottage Industries and their Remedies : A study of the Indian cottage industries reveals that they are not in a happy position. Some of them are dead, others languishing and still others struggling to keep themselves above water.

The following are some of the difficulties experienced by the cottage industries :

(*a*) Lack of financial facilities, and the poverty and indebtedness of the craftsman.

(*b*) Absence of organized marketing which throws the craftsman completely at the mercy of the middleman.

(*c*) Inefficient methods and high cost of production leaving a meagre margin of profits.

(*d*) The inefficient human factor due to illiteracy, ignorance and conservatism of the craftsman.

A comprehensive plan calculated to remove the above defects is necessary to bring about a re-generation of our cottage industries. The following measures are indicated :—

(1) Spread of education, general and technical, to fight ignorance and conservatism of the craftsman.

(2) An ambitious campaign for his economic and social uplift is essential.

(3) He should be supplied better and more efficient tools on a hire-purchase system and raw material of the requisite quality at reasonable rates and on easy terms.

(4) New and attractive designs should be brought to his notice and peripatetic parties should be regularly sent out to guide him and give the necessary demonstration.

(5) Industrial exhibitions should be more frequently held so that the products of the cottage industries may get the necessary publicity, and the gulf between the producer and the consumer bridged

(6) Emporiums and marketing depots should be set up to relieve the craftsman from the difficult task of marketing so that he may concentrate on production only.

(7) The crux of the whole problem is marketing and finance and the salvation of the craftsman seems to lie in co-operation which can lift him economically, morally and educationally. Besides providing him with the necessary financial assistance and aid in marketing, co-operation will give him lessons in self reliance and self-government.

(8) Through a vigorous system of research, we must raise his technical efficiency to such a height that he may always be ahead of the machine and not behind it as he is now to his utter ruin and embarrassment.

(9) Cottage workers may be organized into guilds. Such guilds are already being set up in Kashmir.

(10) As recommended by the committee appointed by the U. P. Government in 1934, marketing and financing companies should be set up with Government assistance to provide financial and marketing facilities.

(11) A very necessary step seems to be the integration of the cottage industries with the modern large scale industries. At the present time the cottage industry stands in isolation, always threatened with competition from home and abroad. A co-ordination between the different links of the industrial chain is badly needed. The raw materials can be worked in rural areas in small and medium-sized units and then brought in a semi-finished state to the big urban industrial centres. By establishing a net-work of small and medium-sized industrial units in the heart of agricultural areas, we must industrialize the rural areas. A countervailing excise duty will be necessary to eliminate competition between the home mills and the cottage industries. Such a discriminative excise duty was imposed on Khandsari sugar and the factory-made refined sugar. This is a step in the right direction. This scheme of excise duty should be extended further to embrace all the main industries and their cottage prototypes.

Special efforts were made by Governments in Europe to encourage small industries. The Government of Austria spent large sums on the development of small handicrafts. Watch-making industry of Saxony and pencil industry of Bavaria were fostered by the State. Holland developed the industry of hand painting cloth. The Government of Rumania built up a successful hand-loom industry of 12,000 looms. The Government of Hungary supplied the craftsmen between 1899 and 1909 machinery valued at 3,792,567 crowns.

Similar efforts were made in Germany and Italy. The Japanese Government has been always paying special attention to the small industries.[1] In India, too, since 1935 the Central and the provincial Governments have been spending some money for the revival and development of cottage industries. But such efforts are not commensurate with the requirements of the cottage industries scattered throughout this sub-continent.

In view of the large number of people depending on our cottage industries and the social and economic advantages expected from the development of such industries and the artistic value of their products, a special effort seems to be called for. To find employment for our huge man-power and to establish a proper balance between agriculture and industry, greater reliance must, therefore, be had on the development of small industries in our villages. It will also offset the precarious nature of our agriculture.

Conditions for the development of small industries are especially favourable in India. Large factories require large capital which we lack ; large factories use labour saving devices but we have a large population waiting for employment. Small and scattered holdings in India do not provide whole time employment to our rural population. The scope for the development of cottage industries in India is therefore particularly wide. It is hoped that in a Republican India, cottage industries will be given their due place in the scheme of industrialization.

During World War II the small industries also received Government attention. Official inquiries were made in all provinces and States to see what contribution these industries could make to the war-effort. Lists of articles suitable for manufacture in cottages were prepared and 25 per cent of the war requirements were assigned to them.

Suggestions for further Reading

1. Report of the Industrial Commission, 1918.
2. Radha Kamal Mukerjee - Economic Problems of Modern India.
3. Basu—Ruin of the Indian Trade and Industry.
4. Ayyar—Small-scale Production in India.
5. Balkrishna—Industrial Decline of India.
6. Bannerjee—Economic Life and Progress in Ancient India.
7. Chatterton—Industrial Evolution of India.
8. Rao—Decay of Indian Industries.

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[1] See paper read in the Industrial Conference held in 1912 by Dr. R. K. Mukerjee.

CHAPTER XVII.

LARGE-SCALE ORGANIZED INDUSTRIES

1. Cotton Mill Industry. Although the first cotton mill in India was set up in 1818 in Calcutta, yet the real foundation of the industry was laid in Bombay when a mill was set up there in 1854. Generally, more mills were started, especially in upcountry centres like Ahmedabad, Sholapur and Nagpur. The industry had to face a crisis towards the end of the 19th century and again in 1907. But, on the whole, it continued to make progress, especially in the weaving section. In the period immediately preceding World War I, the Indian cotton industry was doing well but the war gave it a special impetus due to shrinkage in imports and increase in demand for military purposes.

The boom engendered during the war ended in an unprecedented depression for the Indian cotton industry and the condition became acute in 1925. The factors responsible for depression were cut-throat competition from Japan, internal competition, higher wages, higher local taxation and other higher costs in Bombay, defective organization, over-capitalization, etc. As a measure of relief cotton excise duty was abolished in 1926. In course of time the industry was able to establish its claim for protection, which was whittled down, to some extent, by preference being granted to import of British cloth. On the eve of World War II it could not be said that the Indian cotton industry was having a smooth sailing.

Present Position. The Indian cotton industry had thus a chequered history and had to pass through various vicissitudes, but it has continued to grow so that now it can supply almost all requirements for cloth. In 1899-1900, the share of the Indian mills and of import in the Indian market was 12 per cent and 61 per cent, respectively. But in 1930 the corresponding figures were 63·6 per, cent and 8 per cent respectively. So the tables have been completely turned.

The industry occupies a position of unique importance in our country. Nearly Rs. 100 crores worth capital is invested in the industry and it provides employment for nearly half a million workers and their families; and if we include the number of people engaged in cultivation and distribution of cotton as well as those who deal in cloth, it will probably be an underestimate to say that 15 million persons directly or indirectly depend upon this industry. It consumes more than 50 per cent of the total Indian cotton crop production in a year. It occupies a respectable position in the world cotton industry inasmuch as it stands second in the world so far as cloth production is concerned and fifth in the matter of looms and spindles installed. It produces 14 per cent of the estimated world production of cloth and 13 per cent of the estimated world production of yarn.

Recent Developments. The Tariff Board in 1927 adversely commented upon the quality of the Indian mill production. Since then the mills have been making serious efforts to improve their output. By the increased use of imported cotton, by the steady improvement of the quality of Indian cotton and through the adoption of such mechanical aids as better opening, cleaning, high draft system of spinning and use of combing machines, the progress in spinning finer counts has been accelerated. During one decade—1928-1929 to 1938-39—whereas the production of yarn of counts below 20s. increased by 92 per cent, that above 30s. registered an increase of 494 per cent. Similarly, there has been a marked improvement in the quality of cloth produced by Indian mills. In 1927-28, the proportion of piece goods woven from finer counts, *i.e.*, above 30s. was nearly 10 per cent, whereas in 1938-39, it was 3[illegible] per cent. Also production of piece goods shows a wider range and an astonishingly greater degree of diversification. Considerable progress has also been made in the production of printers which in course of five years, 1932-33 to 1937-38, increased by 87 per cent. Appreciable improvement has been made in design and style so that the Indian-made cloth is now almost as attractive as the imported one. Arno Pearse remarks, "The range of goods made by Indian mills does not stand behind that of the largest mills in Europe."[1]

Another noticeable feature of the industry is the 'away-from-Bombay' tendency. The advantages of Bombay lie in the humidity of its climate, trained labour, availability of supervisory and technical staff, more economical purchases of imported cotton, machinery and mill stores, lower office expenses and better banking facilities. But centres like Ahmedabad, Sholapur, Nagpur and Kanpur enjoy greater proximity to raw material, nearness to market, closer acquaintance with the needs of the locality, cheap labour and cheap land. The balance of advantage seems to be against Bombay, and we find increasing decentralization of the industry. The share of Bombay in the number of mills has gone down from 32·9% in 1919 to 18 6% in 1937, although Bombay is still the most important single centre of the industry. Saturation point seems also to have been reached in Ahmedabad. We may, therefore, expect the migration of the industry to other parts of the country like Northern India, Bengal and particularly the Indian States.

Still another tendency is for the weaving side of the industry to develop more rapidly than the spinning side. Between 1905 and 1936, whereas the spindles increased by 91% the looms increased by 299%. Efforts have also been made in the directions of modernisation of plants and improvement of working conditions in the mills by the installation of humidification plants.

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[1] Arno S. Pearse—*Cotton Industry of India* 1900, p. 9.

2. Some Suggestions for Improvement. The Indian cotton industry has undoubtedly shown great progress and has made India almost self-sufficient. But it cannot be said that the position of the industry is perfectly stable. In order to place it on a sound footing the following measures may be adopted :—

(1) It is very necessary that during the period of high profits steps should be taken to build up reserves and that the profits be not frittered away in high dividends, so that the industry can face the future with confidence.

(2) If the industry is to successfully withstand foreign competition and acquire a foothold in foreign markets, it will be necessary to apply, like the Japanese, the methods of high commerce to the purchase of cotton and to the selling of piece-goods.

(3) It is further necessary to continue making efforts towards improvement of the quality of the cloth and further diversification of the output by taking up the production of mechanical and industrial textiles including material for wire insulation, special cotton tapes for spindle driving, tracing cloth for drawing offices, horse hair cloth for lining suits, special woven tapes for curtains, etc.

(4) The equipment of cotton mills needs considerable improvement. Mr. Harold Hill, Technical Expert, Howard and Bullough Ltd., who visited Indian mills a few years ago, was of the opinion that a large amount of plant in Indian mills was in urgent need of replacement.

(5) Ignorant and otherwise busy directorate, incompetent and selfish managing agents, in the case of several mills, and defective financial arrangements which have been described as fair-weather friends, are some of the other weak spots which must be eliminated.

(6) Above all, the organization of the industry must be toned up. It is organized on a strictly individualistic basis, each mill working its own arrangements regarding purchase of cotton, machinery and mill stores, selling its output and effecting insurance as best it can with the limited resources at its disposal. The Cotton Spinners' Association of Japan has an absolute control over the constituent members and much of the progress of the industry in Japan is due to the driving force and direction of its organization. In England, too, the industry has been replanned on a collective basis. If our industry also is to be rationalized, its organization must be drastically overhauled. Continuously functioning sub-committees on matters like export trade, mill finance, labour, purchase of cotton and mill machinery and stores may in the meantime be set up Constant touch must be maintained with our Trade Commissioners abroad.

3. War and Post-war Developments in Cotton Industry. For more than a decade preceding World War II, the Indian cotton industry passed through a period of almost unrelieved gloom, and the declaration of war brought a ray of hope. The export of cotton piece-goods in 1942 43 was four and a half times as much as in 1938-39, the pre-war year. There were keen oversea demands from Ceylon, Australia, Africa and the Middle East. There was a welcome respite from foreign competition. Japanese imports disappeared altogether and imports from the U.K. also went down considerably. The industry seems to have its hands full at present, and it has made some new innovations, *e.g.*, the cotton-jute fabric and fivefold yarn.

The war was not an unmixed blessing for the industry. There were labour troubles, and wages increased and dearness allowances had to be sanctioned. It was not easy to import machinery, cotton and mill stores, so that the industry could not expand in response to increased demand. Taxation increased. All this meant a higher cost of production. On the whole, it may be said that the war ushered in a period of comparative prosperity for the Indian cotton industry. It is now estimated to employ three lakh more men and women than before the war.

Towards the close of the war, plans were being prepared for post-war developments The panel for cotton mill industry prepared plans for the expansion of the cotton mill industry by setting up more than 100 cotton mills distributed over the whole country. The partition of the country has held up all such schemes. The schemes have now to be revised. There is room for many more mills in India. Everybody feels the acute shortage of cloth. But it is exceedingly difficult to secure plants from the U. S. A. or the U. K. in view of their commitments in connection with Marshall Plan for European recovery. However, negotiations for the import of one lakh spindles have been completed with Japan. We shall give 30,000 tons coking coal in exchange.

The Indian Textile Delegation visited England to secure textile machinery and replacements. As a result of these contacts a joint enterprise between Indian and British manufacturers has been launched under the name of the National Machinery Manufacturers Ltd. The authorised capital is Rs. 5 crores open to subscription by the Indian textile mills to the extent of 74% and the British interests taking up the remainder 26%. They will be entitled to appoint 25% directors on the board.

The potential capacity of the existing mills has been put at 6,000 million yards annually. An ambitious programme for further development of the industry has been put into a final shape. There are 32 mills in process of being set up. The allocation of new units to different provinces has been settled.

Protection has been extended to certain cotton-mixed fabrics for two years with effect from April, 1919.

Cloth was decontrolled in April, 1948, but controls had to be reimposed in July, 1948. A statutory control of production of textiles has been introduced with effect from December, 1918. The control measures are intended to step up production to ensure uniformity of output and its durability, and to regulate the varieties to be produced. Distribution is left to the discretion of the provinces and States. Some provinces have introduced rationing of mill-made cloth.

Production in 1948 was 4,337 million yards as against 3,816 million yards in 1947. The target for post-war expansion is 8,000 million yards (both mill-made and handloom) per year. To encourage exports for clearing up the accumulated stocks, export duty has been reduced from 25 to 10%. Production of yarn has been put at 1,475 million lb. Multiple shift working can accelerate production. The check to production has arisen from the reimposition of controls and interference with normal trade channels by the provincial and State Governments, because the new agencies created by them were not able to clear off the stocks. Difficulty in the supply of raw cotton has been an aggravating factor.

Since the partition, the position regarding supply of raw cotton has become very insecure, because we have to depend on Pakistan. As against the normal consumption of 45 lakh bales a year, production in 1948 was only 28 lakh bales and the estimated production in 1949 only 23 lakh bales. It is estimated that at the end of the year, *i.e.*, August 31, 1949, stocks just sufficient for seven weeks only will be left.

4. Jute Industry. The jute industry, too, was at first a handloom industry, and, in the words of Dr. Forbes Royle, "forms the grand domestic manufacture......... It pervades all classes and penetrates into every household". Up to 1857, all the gunny bags exported from India were made entirely by hand and exports in 1850-51 were valued at Rs. 21,52,782.[1]

The jute mill industry owes its inception to one George Acland who set up the first jute mill at Rishra near Serampore. The first powerloom was installed by the Borneo Jute Co. in 1859. At first the progress was very slow, and the first mill had to be wound up. But within a few years, the jute mills came to have a very prosperous career and, in the words of Wallace, "they simply coined money" between 1868 and 1873. Till 1895, the progress was very slow, but it has been very rapid since then. Progress in hessian was much more rapid than in sacking, the looms for the former increased during 1877-1915 by 2,400%, whereas the increase in the latter was only 430%.

The World War I gave a great stimulus to the industry. But in the post-war years, it was not in a happy position, especially since the 'thirties on account of world-wide economic depression. The productive capacity of the industry had exceeded the demand. Voluntary agreements were entered into to curtail production by short-time working and by sealing of looms. Restrictions on further extensions were also imposed. In 1939, therefore, a short-time agreement of 45 hours a week with the sealing of 20% hessian looms and 7½% sacking looms was entered into. On the whole the jute industry in India has made uninterrupted progress. Its original outturn was only 8 tons a day, and today the production is 5,500 tons a day.

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[1] Dr. Forbes Royle—*The Fibrous Plants of India* 1855, p. 251.

Feverish attempts are being made in several countries to discover suitable substitutes for jute. For example, in America bags made of fivefold paper have been used instead of jute bags. A plant called malva, grown in Cuba, has been found to be quite promising. Italy has discovered a substitute called Jutital. A Japanese chemist has perfected a new type of heavy paper for the manufacture of bags. But such efforts are still in the experimental stage, and it is doubtful if a really suitable substitute for jute can be discovered.

In 1936, the Indian Central Jute Committee was set up and its programme includes marketing and transport inquiry, agricultural and technological research, seed supply, improvement of jute forecasts and collection and dissemination of information of interest to the trade. Agricultural Research Laboratories and Technological Research Laboratories have already been set up where spinning trials on the various types of fibre are carried on. The Indian Central Jute Committee also tries to find new uses for jute, *e.g.*, a cotton-jute fabric has already been manufactured. But no attempt has been made so far to start subsidiary industries and even ordinary stores have to be imported. War has only helped to conceal temporarily the weakness of the industry. Only a radical reorganisation can set it on a stable footing. Rationalization by compulsion seems to be the only permanent solution. Compulsory cartelization is likely to prevent the recurrence of old troubles.

5. **War and Post-war Developments in Jute Industry.** The jute industry has been passing through difficult times before the war. Declaration of war put the industry again in a buoyant mood. Since then the industry has been enjoying a measure of prosperity. Loss of continental markets and shipping difficulties have stood in its way of deriving full benefit from the war. World War I proved much more beneficial than World War II.

"From a valuable export commodity and the mainstay of Bengal's economy jute has, through political and economic readjustments, now become the problem child of the Government of India." The partition deprived India of 71% of the total jute-growing acreage or 72% of the aggregate jute production. Soon after, the Pakistan Government started the 'battle for jute,' on account of which confusion has continued to prevail in the industry. According to the Inter-Dominion Agreement of May 1948, Pakistan has to supply to India 50 lakh bales of raw jute annually. If this agreement is honestly carried out, the Indian jute industry may not have any trouble. But Pakistan is reported to be developing the port of Chittagong to serve as an outlet for jute and has ordered a number of jute presses. This means that India must try to grow sufficient jute for her own mills. In spite of these handicaps production of jute goods has been looking up. Production in 1948 amounted to 10·4 lakh tons as against 10·1 lakh tons in 1947. If we include about 70,000 tons production of non Association mills, then the total production will be very near, if not exceed, the production of 1946 which was 10·7 lakh tons.

6. A Comparison of Cotton and Jute Industries. The Indian jute industry presents, in some respects, a marked contrast to the cotton mill industry.

In the first place, the jute industry enjoys a monopolistic position free from fear of rivals in the international markets. The cotton industry, on the other hand, is much more vulnerable and fear of foreign competition always haunts it.

Secondly, the jute industry is essentially an export industry, depending almost exclusively on foreign markets, whereas the export trade of the cotton industry is insignificant as compared with the home market.

Thirdly, the jute industry is highly centralized, being confined to one corner of the country, whereas the cotton industry is more widely spread and is being increasingly decentralized.

Fourthly, the management and ownership of the jute industry are preponderantly in foreign hands, while the cotton industry has been financed largely by Indian capital and is managed by Indians.

Fifthly, the size of an average jute mill is larger that that of an average cotton mill.

Lastly, the jute industry is more efficiently organized and has shown greater capacity for a concerted action to meet any situation of stress and strain.

7. Iron and Steel Industry. Acquaintance of Indians with the use and making of iron is said to date from 4000-5000 B. C. The Iron Pillar at Delhi, which is considered to be about 1,500 years old, is a marvel of metallurgical skill. Even now there are only a few factories in the world which can accomplish such a feat.[1]

But the manufacture of iron and steel on modern lines and on a large-scale was taken up only recently. Early attempts at making iron and steel almost invariably failed on account of want of expert preliminary inquiries, inefficient management, lack of experience and, above all, owing to the difficulty of securing adequate and timely financial assistance. The first really successful attempt was made by the Tata Iron and Steel Co., formed in 1907. Next year was formed the Indian Iron and Steel Co., with its works at Hirapur near Asansol, and in 1923 were established the Mysore Iron Works at Bhadrawati. In 1937 was founded the Steel Corporation of Bengal.

The Indian iron and steel industry is practically synonymous with Tata Iron and Steel Works. It is the largest in the British

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[1] Ranade—*Essays on Indian Economics*, p. 172.

Empire. The works are ideally situated because necessary raw materials like iron-ore and coal are to be found within an economic radius. As a matter of fact, there are few instances in the world where high quality ore can be landed at so low a price. No wonder that India can produce pig iron at the lowest cost in the world.

World War I gave a great impetus to the iron and steel industry. But, after the war, the industry was in the throes of acute depression, and the *Fiscal Commission* recommended an immediate inquiry into it with a view to granting protection. The Tariff Board found that it fully satisfied all the conditions laid down by the Commission. Protection was accordingly granted in 1924 in the form of import duties and bounties, and it has been continued since then. As recommended by the Tariff Board in 1947, 30% *ad valorem* duty was imposed on certain categories of British steels and 42% on the non-British steels.

The Indian iron and steel industry has fully justified protection granted to it, for during the period of protection it has made remarkable progress. Productive capacity has been enlarged, processes have been improved and costs have been lowered[1] The Tata Company's capital expenditure between 1929 and 1939 amounted to Rs. 7½ crores and an elaborate programme of extensions was planned in 1940 calculated to establish a new record production of steel ingots and finished steel. The industry supports about 600,000 men and women workers and their dependants and contributes to the tune of Rs. 647 crores to the public exchequer. Rs. 25 crores worth of capital is invested in the industry. About its vital importance to the nation there cannot be two opinions. For national defence it is indispensable. Several other allied industries have grown up For example, there is the machine-tool industry which in 1946 manufactured about 9,000 tools of the value of Rs. 1¾ crores. Many others like the manufacture of locomotives and railway wheels are likely to develop. All types of machinery are still imported. There is, therefore, a great scope for expansion.

8. War and Post-war Developments in Iron and Steel Industry. Before the outbreak of the war, the tremendous armament drive produced a boom in the iron and steel industry. The outbreak of the war raised it to a still higher pitch. An era of unprecedented prosperity began. Prices, profit and production all went high up. It was able to break some new ground in production. Among the new manufactures may be mentioned high-speed steel, armour-piercing steel, bullet-proof armour plate, wheels, tyres and axles. In the domestic market, however, stringency was created by the control measures adopted by the Government.

Slackening of production and falling down of exports are the outstanding features of the Indian iron and steel industry after the war. The production of steel in 1948 has been put at 850,000 tons as against 868,580 tons in 1947—a year of universal under-production. This is only two-thirds of our installed capacity and one-third of our total demand. The situation is very disquieting. Our short-term demand has been put at 2·5 million tons, whereas we produce only 1·2 million tons. The main causes of decline in production are the short and precarious supplies of coal, labour troubles and transport difficulties. As a result of decline in production, exports of iron and steel have decreased which means a great loss of foreign exchange. Inside the country provincial quotas had to be drastically cut down and the development plans were held up. The Government has under active consideration the setting up of one or two factories for the manufacture of 1,000,000 tons of steel. The Government is also thinking of startig a State-owned machine-tool factory for the manufacture of inntricate types of machine-tools.

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[1] *Vide* memorandum submitted by the Tata Co. to the Indian Tariff Board in 1933.

9. **Sugar Industry.** India is believed to be the original home of sugar. It is said that India manufactured and used sugar when the rest of the world even did not know its name ![1]

Gur-Making. The sugar industry has its indigenous aspect in the gur-making industry. Spectacular growth of the white sugar industry seems to have eclipsed the gur-making industry, but the latter occupies a very important place in our economic life. About 70 per cent of the sugarcane grown in our country is utilized in the making of gur. The average *per capita* consumption of gur in India was estimated by the Tariff Board in 1938 at 25·8 lbs. and was as high as 72·4 lb. in the U. P., while *per capita* consumption of sugar is only 7·6 lb. It has been proved by scientific analysis that the nutritive value of gur is 30 per cent. higher than that of sugar.[2] But the process of gur making is very wasteful. Improvements must be made in this as well as in classification so that more palatable and presentable gur is placed in the market. The World War II stimulated gur production by creating shortage of sugar. Decontrol of sugar towards the close of the year 1947 adversely affected the gur industry. The consumers substituted sugar for gur, as a result of which the price of the latter fell from Rs. 25 per md. to Rs. 9/.

White Sugar. But when we think of the sugar industry, it is white sugar that we have in mind. At one time Indian exports exceeded imports. But competition from Java sugar and the bounty-fed sugar from Europe dealt a death-blow to the Indian sugar industry. The stimulus given by World War I afforded only a temporary relief and the few sugar factories that existed in India were having only a precarious existence. The industry was given protection for a period of 15 years expiring on 31st March, 1946. Its development under the shelter of protective tariff was simply astounding Within two years there was 400 per cent. increase in the number of factories and since 1931-32 production of sugar has increased 700 per cent. There was also a sharp decline in imports which up to 1930-31 averaged one million tons but in 1936-37 the net imports were only 12,000 tons nearly.

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[1] Prinser Grasl gs, quoted by Sanghi in a paper read at the Industrial Conference held in 1916.

[2] Vide Harijan, dated April 20, 1935.

India is now the largest producer of sugar in the world and the sugar industry in India is only second to the cotton mill industry in importance. About Rs. 30 crores worth of capital is invested in the industry, and it provides employment to 4,120,000 men in addition to 3,000 graduates and technical men and 20 million cultivators. It has stopped an annual drain of Rs. 16 crores nearly.

There are some handicaps and shortcomings from which the Indian sugar industry is suffering. (1) The greatest handicap is that the yield of sugarcane in India is very low. Although the area under improved varieties of cane has increased from about 40% in 1931-32 to 83% in 1945-46, the yield per acre during this period has gone down from 14·10 tons per acre to 14 tons. It is clear, therefore, that mere showing of the improved varieties cannot increase the yield unless they get the necessary nutrition from liberal supply of good manure. In the absence of adequate manure, they have simply drawn on the accumulated fertility of the soil. In Bombay, the cane variety C O 419 yields about 40 tons per acre whereas the same variety in the U P. yields only 10 tons, the reason is that it is the factories in Bombay that grow their own cane and they can afford to put in good quantity of manure and provide ample irrigation facilities. Low yield of cane is THE problem of the sugar industry. Its solution seems to lie in the provision of adequate irrigation facilities, supply of manure of the right type and in the requisite quantity, and of improved implements. Control of pests and diseases, prevention of soil erosion, introduction of improved methods of cultivation and cropping are also very essential to increase the yield of cane per acre. At present our yield is one-third of Cuba, one-fourth of Java and one fifth of Hawaii. The fact is that the best quality sugarcane can be grown only in the tropics, 'the land of the burning sun and of the beating rain.' But 90 per cent. of our sugarcane acreage is to be found in the sub-tropical areas, which is really a wheat tract. (2) There is maldistribution of cane cultivation, so there is superfluity round some factories and shortage in others. The Sugar Control Acts in the U.P. and Bihar seek to rectify this situation by introducing the zoning system and by reserving and assigning areas for each factory. Again, the price of sugarcane delivered to the factories is much higher as compared with Java (3) Another cause of our high cost of sugar production is the short crushing season. Therefore it is also necessary to find early-ripening and late-ripening varieties. the Imperial Council of Agricultural Research is working on this problem. (4) The milling efficiency is also low on account of the defective size, design, lay-out and the unbalanced nature of the plant, and uneconomic size of several sugar mills. Recovery in India is 10% as against 11·9% in Java and 12% in Cuba. (5) The location of several mills is unsatisfactory both from the point of view of the material and market relations. The U. P. and Bihar account for 75 per cent of the sugar factories and 81 per cent of sugar production. In Bombay, consumption of sugar is the highest but production is very low; in Bihar, on the other hand, consumption is very low and production is very large, and in Madras production is small and consumption is very large. This involves unnecessary costly haulage. To remedy this defect a system of licensing of the factories should be introduced on an all-India basis and future expansion of the industry should be properly planned. (6) Another fundamental defect in the structure of our sugar industry is the divorce between the agricultural and the manufacturing sides, whereas the integration of the two is the normal feature in other countries. Our factories do not grow their own sugarcane and, therefore, cannot regulate quantity and improve the quality.

One of the most pressing problems of the sugar industry is the one relating to the utilization of by-products. Begasse used at present as fuel can be more economically used for the making of paper and paste board. Then, the ever-accumulating quantities of molasses are becoming a nuisance to the factories and a danger to public health. It can be used as fertilizer, cattle feed, for road surfacing and for the manufacture of power alcohol. Out of 5·3 lakh tons of molasses made available annually by the sugar factories in India, 33 million gallons of power alcohol can be produced, whereas the present (1949) output is only 3 million gallons. With the utilization of by-products, price of sugar can be lowered and consumption increased.

The quality of our sugar also needs improvement. Although the best quality Indian sugar is as good as the best imported foreign sugar, yet the average is smaller in grain, not so white in colour and lacking in uniformity of crystals.

In India, conditions for the expansion of the sugar industry seem to be particularly favourable. We have an abundant supply cane and cheap labour. Our population, being largely vegetarian, provides a vast market. Our present the *per capita* consumption of 6·7 lb. per annum is insignificant as compared with 105 9 lb. in Australia, 105·4 lb. in Great Britain and 94·8 lb. in the U. S. A. Even a little rise in the standard of living will open out a large field for further expansion. With the resources at our command, we can aspire to be one of the biggest exporters of sugar in the world.

10. War and Post-war Developments in the Sugar Industry. The sugar control was abolished from December 8 1947. There was an influential body of opinion, especially in the official circles, which was deadly opposed to the abolition of controls. But Mahatma Gandhi insisted on their abolition. His views prevailed with the Government and no catastrophe foreboded by the advocates of controls has overtaken the country. The decision to decontrol sugar was indeed a bold and correct decision. The decontrol seems to have solved many problems of the sugar industry concerning the manufacturer, the trader and the consumer.

The sugar panel appointed by the Central Government announced in September 1947, two major decisions, *viz.*, an increase in sugar production and the establishment of additional units and their location. Instead of the normal production of about 10 lakh tons, the target fixed is about 18 lakh tons. For this purpose there will be expansion of existing factories, installation of new ones, development of sugarcane and the provision of better facilities for securing cane for the factories. Twenty new units with a capacity of 800-1,000 tons a day have been allocated to the provinces and States. Another allocation of 25 new factories is also expected later. The number of factories in 1947-48 was 134.

Like other Indian industries, the sugar industry has also shared in the production difficulties. For some years production has been falling and that for 1946-47 was, with the exception of two seasons 1938-39 and 1941 42, the lowest in the last 12 years. Production in 1947-48 was 10,77 000 tons as against the peak production of 12,49,000 tons in 1939-40.

There are several factors responsible for this decrease in production. Production in Bihar suffered from floods, that in the U.P. from the red rot and that in the Punjab from red rot and borer. Labour trouble caused a loss of 44 lakh tons. Control over gur was ineffective and sugarcane was diverted from the factory to the making of gur. Shortage of cane shortened the working season which was 90 days in the U. P and 70 days in Bihar as against 96 days and 79 days, respectively, in the previous year. The breakdown of the transport system seriously interfered with the movement of cane to the factories.

The mill-owners had the feeling that the profits were being seriously cut down. The prices of cane had doubled during the last four years. Reduction in output meant higher costs. Protection to sugar industry, which was due to expire on March 31, 1949, has been extended for a further period of two years. It is a pity that after 16 years of protection the industry is still unable to stand on its own legs. It must be admitted that the progress the industry showed in the early period of protection has not been maintained. The fact is that unless the quality of cane is improved and its yield per acre is considerably increased and unless milling efficiency goes up and increased use is made of by-products to lower the overhead costs, our sugar industry will not be able to face foreign competition. The sugar price in India is double the world price. Our industry, therefore, must be protected. But it will be necessary during the period of protection to fix the price of sugar and of cane, and limit dividends so that none of the parties is able to exploit the other. The Government must see that a determined effort is made to improve matters both in tae agricultural and manufacturing aspects of the industry.

The partition had cut down the home demand by 2½ lakh tons and hence a surplus of 2 lakh tons is expected in the season 1948-49. This represents a fundamental change in the position of the industry. It is not easy to dispose of this surplus because the price of sugar in India is much higher than the world price. Pakistan and other Middle East countries which are suitable markets for our sugar, are buying it from Cuba, Brazil, etc. Thus although the ban on sugar exports was removed in 1948, it was of no avail. The high price of our sugar is not only detrimental to the industry but also to the country as a whole. The consumption of sugar inside the country is reduced and as the prospects of exports are blocked we cannot earn foreign exchange which we so badly need for importing food and capital goods.

11. **The Paper Industry.** In a country like India where the written word is still a mystery to millions of people, the paper industry cannot have the same importance as it has elsewhere. The modern paper industry owes its origin to Dr. William Carey, who, about a century ago, set up the first paper-making machine at Serampore on the River Hooghly. But the real beginning was made with the establishment of the Royal Paper Mill at Bally in 1867. Other mills followed : Upper India Cooper Mill, Lucknow (1879) ; the Titaghur Paper Mills near Calcutta (1882) ; Deccan Paper Mill Company (1885) ; Bengal Paper Mill Company (1889) ; Imperial Paper Mills (1892, taken over by the Titaghur Paper Mills in 1903). Mills set up in the post-war period were Indian Paper Pulp Co. (formed in 1918 and commenced operations in 1922), Carnatic Paper Mills, Rajahmundry (1927) and Punjab Paper Mills at Jagadhri now Sri Gopal Paper Mill. More recently a mill has been set up in Assam, a paper pulp factory at Chittagong and several other mills were started in 1939.

After 1918 the Indian paper industry suffered from foreign competition and was granted protection in 1924 particularly with a view to developing bamboo as a raw material. The results achieved vindicated this policy of protection. In 1932, therefore, protection was renewed for a further period of seven years when imported wood pulp was subjected to a duty of nearly Rs. 45 per ton. Again, in 1939, protection was extended for a fourth period of three years though the import duties were lowered.

As for raw material, India abounds in different species of grasses but on account of these being intermingled with weeds and other impurities, their separation is either impossible or uneconomical. Sabai grass was found to be the most suitable. But it has now been supplanted by bamboo as the staple raw material for the paper industry. Abundant supplies of bamboo exist in India where the conditions of exploitation are highly favourable. Bamboo-made paper is superior to grass-made paper, for it is singularly free from blemishes and spots and not only possesses initial strength but has sufficient durability. India has not yet exploited her vast forest wealth for making paper. In the Himalayas there are vast stretches of pine, spruce and fir. Therefore, production of mechanical pulp from Indian wood has a brilliant future. Begasse, a by-product of sugar industry, is another raw material, the plentiful supplies of which are waiting to be used for paper making purposes.

Indian mills have been spending large amounts in recent years in making additions to and improvements in the equipment of their plant. But there are still some important deficiencies. Several units are smaller than the optimum size. Much of the machinery is still old if not obsolete, especially the paper-making plant; and the plant as a whole is not a balanced one, for the pulp-making and paper-making capacities differ.

There is now a wider range of output, and the quality is also not inferior to the imported ones. They can now make almost everything except newsprint which has to be imported and our requirements of newsprint are roughly 45,000 tons a year.

The Paper Pulp Section of the Forest Research Institute, Dehra Dun, has been carrying on very useful experiments to further the development of the paper industry in India It has been demonstrated that good cheap wrapping paper can be made by a mixture of indigenous mechanical wood pulp and chemical grass pulp. Experiments have been made for the making of wrapping paper from grass pulp and craft paper from *chir* and pines.

There is a fairly large scope for the expansion of the paper industry in India. As drive against illiteracy gathers momentum demand for paper is bound to increase. Our *per capita* consumption of paper was only 1 2 lbs. in 1938-39. In America it is 240 lbs.

The effect of World War II on the Indian paper industry has been drastic. Extension of war to the Baltic cut off the foreign supplies of wood pulp. Imports practically ceased. Increase in Government activity and other war requirements increased the demand. Mills were working at their maximum capacity. There was a phenomenal rise in prices and large profits were made. But there was a serious shortage of paper and the public experienced great difficulty in obtaining their requirements. The mills themselves had to pay abnormally high prices for imported stores and chemicals. Severe restrictions were imposed on the use of paper for non-essential uses.

Production in 1947-48 was nearly 1,443,000 cwts. as against the peak production of 1,959,000 cwts. in 1942-43.

12. Leather and Tanning Industry. The leather industry occupies a very important place in the national economy of every country and it has come to be considered as a key industry.

India has the reputation of having a large surplus of hides and skins. She supplies one third of the total goat skins to the tanning industry of the world. The normal production of India has been put at 22 million goat skins, 3 5 million sheep skins, 30 million cattle hides and 3·5 million buffalo hides. The local tanning industry can absorb only about 75 per cent. of the cattle hides and 50 per cent. of goat and sheep skins and the rest is all exported.

The leather and tanning industry can be broadly classified into two sections: the indigenous and the modern. A considerably indigenous industry must have existed in India for a long time to supply the military requirements of the Indian Maharajas and Nawabs. It is even now widely spread in the country using locally available tanning materials and producing crude leather to meet mostly the local demand. It is confined to the depressed classes. In East Punjab and Bengal the industry produces bag-tanned buffalo sole leather for shoes and tanned sheep skins used for book-binding. Madras and Bombay specialize in semi-tanned leather meant almost exclusively for export. Madras has been the home of Indian tanning industry for a long time, probably due to the availability of a local shrub whose bark proved to be an excellent material. Discovery of the chrome process in America and the introduction of machinery led to a decline of the Indian tanning industry and hides and skins came to be increasingly exported in a raw condition.

In the modern section of the tanning industry are employed scientific methods of tanning used in the West, and there is an extensive use of mechanical appliances. The Government Harness and Saddlery Factory was set up at Kanpur in 1867, and in 1830 the Government assisted financially the establishment of the Army Boot and Equipment Factory of Messrs. Allen and Cooper. Another important factory was the Western Indian Army and Equipment Factory at Bombay. Several others were also established.

The military requirements have always loomed large before the leather industry. Its origin lay in the military necessity. During the war of 1914-18, the industry received a special stimulus and the manufacture of boots and shoes after the war was twenty times greater than what it was before. World War II, too, gave a special impetus to the further expansion of the industry. Plants were modernized and extended. The processes of tanning were considerably improved. The vegetable process has been accelerated and occupies now the most important position. The output was vastly increased. Messrs Cooper Allens produced 2,000 pairs daily before the war but 19 000 pairs daily during the war. The Bata Company doubled its output. Persons employed in harness and saddlery factories rose from 3,000 in 1935 to about 20,000 during the war.

Today (1949) there are 13 large concerns using the latest processes and most modern machinery, and employing about 35,000 workers, although there are about 250 tanneries in India. Numerous small tanneries have also come into existence. Phenomenal development has taken place in chrome tanning for shoe upper leather, box and willow sides and box and willow calf from calf skin. The manufacture of new lines like leather belting, roller skins, etc., has also been taken up.

The tanning processes, on the whole, are quite defective. Nearly 10% of the value of hides and skins is said to be lost every year on account of defective flaying and careless and delayed curing. Also the salts used are inadequate and inferior. Marketing arrangements are also crude and inefficient

The yearly output of shoes has been estimated at six lakh pairs of which one lakh is taken by the army. Shoe-making factories equipped with modern machinery are to be found in Agra, Kanpur and Calcutta.

The industry has so far confined itself to the production of shoes. But there are several other lines that can be taken up, *e.g.*, fancy goods like handbags, suit cases, sports goods and industrial requirements such as belting and cotton pickers.

It is sometimes suggested that a ban should be imposed on the export of hides and skins as an aid to leather and tanning industry. But the existing modern tanneries can handle only about one-fifth of the raw hides and one-tenth of the raw skins. A ban would simply make the bulk of hides and skins rot and we shall lose a major portion of Rs 17 crores that we are getting every year from the export of hides and skins. Unless we have tanneries ready to treat them at home, it will be a national loss to ban their export. As an aid to industrial development it will be a case of placing the cart before the horse. In order to accelerate development of this industry (1) Provincial Finance Corporations or other agencies should grant adequate financial assistance to set up modern tanneries; (2) the Central Government should procure plant and machinery and chemicals required; and (3) a Central Training Institute, besides the provincial institutes, should be set up to train young men in modern methods of tanning.

In view of the fact that there is a vast market for shoes in India, that industrial development will increase the demand for leather goods for industrial purposes and that we have almost unlimited supplies of raw materials, the industry has altogether a bright future. Footwear consciousness in India is still very low. For some time the home demand will be enough to absorb any increase in production. Possibilities of export may also open out.

13. Chemical Industries. The chemical industries are of vital national importance. Heavy chemical industry is a key industry *par excellence.* It is difficult to think of any important industry which does not use chemicals at one stage or another. The Chemical Industries Sub Committee of the National Planning Committee emphasized the fourfold importance of the chemical industry to our national economy : (*a*) in the country's defence, (*b*) in providing artificial fertilizers, (*c*) indispensability for the production of other industrial products and (*d*) in relation to public health. The importance of this industry can, therefore, be

In spite of the great importance of this industry, we, in India, have made very little progress in developing it Although Messrs. D. Waldie & Co. started manufacturing chemicals in India in the middle of the last century, yet the industry has been established in India only in the present century. We seem to be fully one century behind. Some progress has been made in the manufacture of sulphuric acid, but as for alkalies not much has been attempted. Lack of knowledge and trained personnel are largely responsible for this slow development. Besides, the Indian market has been dominated by powerful foreign combines.

During World War 1, production of chemicals was stimulated to some extent, but no appreciable progress was made. The stimulus was soon lost. In 1928 the question of granting protection to the industry was referred to the Tariff Board, on whose recommendation protection was accorded to it in 1931 which was further extended, though the import duties were lowered, up to 31st March, 1946.

The World War II gave a great push to the chemical industry. The Government specially interested itself in its development on account of its importance for war purposes. A survey of all the possibilities was undertaken. The Scientific and Industrial Research Bureau devoted much attention to the problems of the industry. A Government plant was erected. Manufacture of soda ash, aviation spirit and of a large number of drugs and several chemicals previously obtained from abroad was started and the manufacture of old chemicals like sulphuric acid and sulphate of ammonia was considerably increased. But still the production of chemicals in India is insignificant as compared with those produced in America and some European countries, like Germany. It is inadequate to meet the country's needs.

The industry is highly centralized, 2/3rds of the persons engaged in the industry are to be found in Bengal and Baroda. The capital investment in the industry is represented by Rs. 20 crores which compared with that in other countries is ludicrously small. Certain lines of the industry have been neglected whereas there is too much concentration in certain other lines resulting in duplication and keen internal competition. It is only in the case of sulphuric acid that the industry is in a position to meet the present requirements.

Post-war Developments. In 1945 the Government appointed two panels which, besides estimating the production of the various chemicals in the country and the need for them, also fixed targets of production to be hit within a fixed number of years.

Seven major chemical industries applied for protection in 1946-47 and on consideration and in pursuance of the recommendations of the Tariff Board the existing revenue duties were converted into protective duties. Besides. a subsidy of 2 per cent was granted on sales.

The chemical industry has several grievances : (1) No uniform policy of taxing spirituous preparations in all provinces ; (2) the prevailing high rates of railway freights for chemicals ; (3) the customs duty on import of chemical machinery and laboratory equipment and raw materials ; and (4) restrictions on exports.

The Government factory at Sindri, the biggest in Asia, planned to produce 350,000 tons of ammonium sulphate is expected to start production in 1950 The Fertilizers and Chemicals (Travancore) Ltd., has also started placing its products in the market. The foundation-stone of the National Chemical Laboratory has been laid at Poona. It will give a great fillip to scientific research.

There are, no doubt, certain handicaps. We rely on imported sulphur, our deposits of sulphur being either inaccessible or not capable of economic supply. Deposits of pyrite are also insufficient. But otherwise, the chemical resources are fairly adequate. According to the Indian Munitions Board, India is well endowed for the successful development of chemical industries both as regards materials and markets. We have got large supplies of alum salts, limestone, magnesium, and also sulphuric ores. We are already producing large quantities of coke from which coal-tar can be manufactured. We may, therefore, reasonably hope to manufacture successfully various types of acids, alkalies, disinfectants, dyes, vegetable and essential oils, coal-tar, etc. Our present dependence for essential chemicals on foreign supplies is dangerous and pitiful.

The peak production of sulphuric acid in 1945 was 62,550 tons. The present (1949) capacity is 100,000 tons and the Development Committee appointed by the Central Government has suggested a target of 1[illegible]0,000 tons a year to be reached in five years As regards soda ash, the total output in 1948 was estimated at 30,000 tons but the imports were 90,000 tons. Production of caustic soda has also increased but the difficulty in the disposal of chlorine stands in the way of further stepping up production. Production of bleaching powder has also shown an upward trend.

14. Oil Crushing Industry. India is the largest producer of oilseeds in the world. But it is a pity that instead of crushing the seeds for oil inside the country, large quantities of oilseeds are exported abroad. India is the largest exporter of oilseeds in the world. This is industrially unsound and economically unprofitable. The country not only loses manufacturers' profits but is also deprived of a large potential wealth in the form of oil-cake which can be used as cattle feed or fertilizer.

World War I gave great stimulus to the industry. During the war period the average exports of linseed oil, groundnut oil and castor oil increased by 443%, 150% and 60% respectively. The industry has made considerable progress since then. There are about 500 big oil mills and about 1,000 medium-size mills in operation for crushing seeds in the various parts of the country. The mills cater to the needs of the townspeople and manufacture oil for export.

In addition to these the indigenous oil mills run by bullocks are working throughout the country. Thus immense quantities of oil are manufactured in the country. But this oil is full of impurities and has not got a good colour so that it can be put to limited uses only.

There are several handicaps from which the Indian oil industry suffers. In the first place, there are high tariff walls in other countries against oils, whereas the oilseeds are admitted free of duty. This encourages the export of seeds from India and discourages the export of oils Secondly, the freight on oils is higher than on oilseeds, which makes it more economical to export oilseeds. Thirdly, oil-cake finds a better market in Europe than in India. Very little oil-cake is used in India as fertilizer and as for its use as cattle feed, Indians have a deep-rooted prejudice against oil-cakes made by machines. Lastly, the export of oil requires special shipping facilities, *e.g.*, tankers for bulk export, whereas export of seeds does not stand in need of any special arrangements.

World War II, having created difficulties in the way of exports, afforded great opportunities for the development of the oil industry in the country. Already modern processes and efficient plants are being extensively used. It is necessary to extend such improvements still further. Almost unlimited supplies of the raw material are available. Preponderance of agriculture and a huge livestock should constitute a vast market for the oil-cake. Oil is a necessary ingredient in the making of soap, glycerine, lubricant, paint, ghee and varnish industries. Its use is capable of further extension. But if the industry is to be placed on a sound footing, standardization of oil and oil-cake will be essential. Besides, educative propaganda will be necessary to persuade the farmer to use oil-cake as fertilizer and convince him that machine-made cake as cattle feed is quite wholesome.

CHAPTER XVIII

LARGE SCALE INDUSTRIES (*Contd.*)

1. Glass Industry. Glass industry in India is of great antiquity. It is believed to have been in existence centuries before Christ. Pliny testifies to the superiority of Indian glass, and Sir Alfred Chatterton speaks of the Indian glass industry as being an established industry in the sixteenth century. But primitive methods, bad materials and crude products were the main characteristics of this old industry.

The Indian glass industry, as in the case of so many other Indian industries, has two well defined sides : (1) the indigenous and (2) the modern The indigenous side of the industry is mainly concerned in the making of bangles and is widely spread throughout the country, especially the U.P., in Bombay and Madras Presidencies. But the real home of the cottage industry is in the Indo-Gangetic basin with its large supplies of skilled labour; coal and saltpetre, and there it is concentrated at Etah, Fatehpur and Firozabad, especially the last. Belgaum in the South is another centre. At Firozabad there are about 10) regular glass-making factories But more modern tastes and competition from glass factories turning out better bangles, especially competition from 'silk' bangles made in Japan, are hastening the decay of this industry.

World War I proved a blessing to the infant industry. The number of factories rose from 3 in the pre-war to 20 in 1918. After the war the industry was able to pull on. The output between the two wars increased by 250%. The value of imports declined. However, tiny factories outside Firozabad were dragging a precarious existence. World War II arrested the decline by affording a welcome respite from foreign competition.

Modern Glass Industry. The modern factory industry dates from the 'nineties of the last century. These pioneer attempts failed chiefly on account of lack of experienced management and skilled labour, wrong choice of site creating difficulties in procuring sufficient supplies of some essential materials and difficulties of finance. But the industry somehow struggled on till World War I came to its rescue. After the war, however, revival of keen foreign competition again put the industry in difficulties. The Tariff Board in 1932 recommended protection for 10 years, but the Government rejected the claim for protection on the ground that sufficient supplies of indigenous raw materials were lacking and that the industry had to rely on imported soda ash. This decision caused bitter disappoinment.

World War II helped the industry a great deal. Several new lines required by the Defence Department were evolved by the Government technologists and handed over to the industry for regular production. Under the guidance of the technologists, furnaces were improved, numerous glass shaping, refining and decorating plants installed. Factories with modern equipment were set up at Ghaziabad, Banaras and Firozabad. For the use of the cottage industry at Firozabad, a gas plant was set up. Technical improvements of fundamental character were effected. Several new lines were initiated, *e.g.*, stoppered glass bottles, glass slides for microscopes, prismatic glass, opal shades for use aboard ships, tinted spectacles, etc. The Indian glass factories now manufacture lamp chimneys, globes, tumblers, jars, flower pots, bottles, sheet glass, electric bulbs, boiler gauges, steamware, hospital ware, etc. Foreign imports are being rapidly replaced.

Annual production of Indian glass industry has been valued at Rs. 200 lakhs and there are about 100 factories, meeting about 50% of the home requirements. Most of the Indian glass works are small and there are a few large works, too, *e.g.*, Allahabad Glass Works at Naini, the U. P. Glass Works at Bahjoi, the Ogale Glass Works in Aundh State, Bombay Presidency, and the Paisa Fund Glass Works at Telegaon near Poona. The main centres of the industry are in five provinces—the U. P., Bengal, Bombay, the C. P. and the Punjab.

The glass industry in India should have bright prospects. Indian market for bangles and other glassware is quite vast. Sufficient trained personnel are now available. Electricity can supply cheap power. Major raw materials in sufficient quantities are also available, only soda ash has to be imported India has plentiful supplies of suitable sands scattered in various parts of the country.

Post war Developments[1] Targets for post-war developments have been fixed: For sheet glass 42 million square feet against present 20 million square feet, for glass shells 25 million pieces against the present 14 million pieces, while the scope for optical glass and scientific instruments is unlimited as the present production is negligible.

But if the industry is to rise to reasonable heights, it will have to get rid of the present shortcomings. It must rationalize itself and effect necessary reforms. Its products are inferior, lack finish and are often deformed. Little attention is paid to quality. There is no scientific control over production. Little progress had been made in technique and the application of scientific methods. There is no marketing organization worth the name Every effort should be made to raise the level of efficiency. Now that the Central Glass and Ceramic Research Institute has been established in Calcutta and has started functioning, we may look forward to the introduction of scientific methods. The functions of the Institute are testing, grading and standardization of raw materials and finished goods, survey and identification of raw materials, improvement in existing operations regarding furnaces annealing, composition of batches, collection and dissemination of information. This development augurs well for the industry if effective liaison is maintained between the industry and the Institute.

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[1] *Eastern Economist*, Jan. 10, 1947. p. 121.

Although it is necessary for the industry to put its own house in order, yet Government assistance is equally essential. A reasonable assurance of protection must be held out. The Government should also secure the services of foreign experts. The industry has a bright future. Rationalisation, consolidation and scientific improvements are essential.

2. Cement Industry. The Indian cement industry is a fascinating study both from the point of view of its phenomenal development and unique organization. It is an industry without a past Though young in years, it has already grown to full stature. From a manufacturing capacity of 85,000 tons in 1914-16 it increased its capacity to 581,000 tons in less than 10 years in 1924, i.e. 583.6% increase. The Indian factories in 1914 satisfied only 6% of the home demand whereas in 1937 the corresponding figure was 97%. Few industries in India, except perhaps sugar, can show a record of so rapid a development.

The first cement factory, which owed its origin to the enterprise of South Industrials Ltd., Madras, commenced operations in 1904 But its methods being not technically efficient, the factory had later to close down. The real foundation of the industry was laid in 1912-13, when three factories were set up. They had hardly commenced operations, when World War I broke out and the Government assumed control of production. The prosperity of these companies led to the establishment of seven more factories, and the existing factories doubled their capacity between 1919 and 1922 As a consequence, productive capacity exceeded demand and cut-throat competition ensued, under which most of the concerns had to suffer. To overcome its difficulties, it applied for protection in 1924. But the Tariff Board refused to recommend protection on the ground that the misfortunes of the industry were due to overproduction and internecine competition. The Board, however, recommended bounties on the consignment of cement to certain ports and railway stations under certain conditions. This the Government refused to accept.

But the Board's suggestion to the industry for closer co-operation was readily accepted. In 1927 the Concrete Association of India was formed to carry on propaganda and educate public opinion in the use of cement. The Association certainly created 'cement mindedness'. The formation of the Cement Marketing Co. in 1930 was the next step. It centralized the selling arrangements and assigned quotas of production to the various factories. But the system was defective inasmuch as most of the factories had to work below capacity and even the least efficient ones were assigned a quota. A merger was, therefore, established in 1936 under the name of Associated Cement Cos., Ltd., (A.C.C.). But the advent of the Dalmia Group in 1936 made a breach in the integration of the cement industry. Luckily an arrangement was arrived at between the two groups and a joint selling organization was set up. The cement industry in India is thus strongly organized both on the productive and distributive sides. By rationalizing itself the cement industry has given an excellent lead to other Indian Industries. India has become almost self-supporting in cement.

The location of some of the cement factories in India is not quite favourable. Proximity to raw materials is there. But the factories are situated far from the coal-fields. The nearest factory is at a distance of 200 miles, and several factories are at a distance of more than 1,000 miles. No cement works up to 1925 were situated within 350 miles of Calcutta and 250 miles of Bombay, and these two ports and their surroundings used more than half the cement consumed in the country. Most of the cement works were thus seriously handicapped by their remoteness from the chief consuming centres. The Dalmia Group, however, did not suffer from these defects to the same extent. At present the industry is concentrated in three provinces,—Bihar producing 598,000 tons, Madras 360,000 tons and the C.P. 250,000 tons.

Indian market for cement is still largely undeveloped. London alone consumes more cement than what is consumed by the whole of India. Till a few years ago the use of cement was confined to heavy structural items of engineering construction, but thanks to the propaganda carried on by the Concrete Association, recently more delicate and every-day uses have been found for cement.

World War II gave a great stimulus to the cement industry. But expansion of industries and Government requirements for war, especially for A. R. P. work, created a new demand. After the outbreak of war the work of military construction was speeded up and it required large quantities of cement. Also demand appeared from the overseas markets. On the whole, the cement industry has made steady progress during the war period. The public has experienced an acute shortage of cement. Restrictions were imposed on civilian consumption. Eighty per cent of the production was requisitioned by the Government for its own use and only 20% was left for public use. Prices rose high. The A.C.C. extended their factory at Coimbatore adding 50% to its productive capacity. The output increased considerably.

Post-war Developments. The peak level of production of cement was attained in 1941-42 and since then production has been on the decline. Production for 1946-47 was the minimum so far. Among the reasons responsible for the decrease in production may be mentioned labour unrest, uncertain political conditions, precarious and short supplies of coal, transport difficulties and wear and tear of the plant and machinery on account of the war strain. Production in 1948 has been put at 1,046 million tons.

The undivided India had an installed capacity of 2·6 million tons but as a result of the partition the Indian Dominion inherits the capacity of 2·2 million tons. We left five factories in Pakistan out of a total of 24.

An ambitious programme for the expansion of the cement industry was prepared, according to which supply was expected to catch up demand in 1948 49. Production was to be doubled by 1952. The Schemes had to be reviewed consequent to the partition of the country, As a result of this revision 32 schemes will operate increasing the installed capacity to about 5·5 million tons a year. The location of the new units has been planned on a rational basis.

3. **Match Industry.** The Indian match industry is of a very recent growth. The only successful factory up to 1922 was the Gujrat Islam Match Factory established at Ahmedabad in 1895. All other factories started during the pre-war period had to be wound up either on account of financial difficulties or ignorance and inexperience of the management or on account of wrong choice of the site.

The year 1922 was important in the history of the Indian match industry. In that year the import duty on matches was raised to Re. 1-8-0 per gross. Although the duty was imposed primarily for revenue purposes, it did afford substantial protection to the Indian industry, and under its shelter several factories were set up. The industry took long strides and between 1928 and 1938, the number of factories more than trebled.

The match industry, finding itself in a difficult position in 1927, applied for protection. But the only relief recommended by the Tariff Board in 1928 was the conversion of the revenue duty into a protective one, thus ensuring its continuity The bewailings of the Indian concerns, however, against the throttling competition of a gigantic Swedish combine working in India, did not receive any sympathetic consideration.

The Indian match industry has the advantage of a large home market estimated at 17 million gross a year and a plentiful supply of cheap and fairly efficient labour. The industry has also made a very rapid progress. Not long ago, we relied on imported matches. But we are now practically self sufficient in our requirements for matches. Production of matches in 1947-48 was 18 million gross as against 16 million gross nearly in 1946-47. The peak production, however, was 23 million gross for 1940-41.

But the disquieting feature in the Indian match industry is the dominance of the all-powerful Swedish combine controlling about 70% of the world match market. Development of the Indian match industry is largely the development of this foreign concern. This strong rival of the Indian concerns jumped over the tariff wall and launched an ambitious programme of setting up a number of factories in India. In 1928 it had only four factories, but now it owns about a dozen of them. Even by 1926 it had captured 50% of the Indian market. It has since entrenched itself more strongly. By the adoption of unfair methods, it has already taken a toll of many Indian concerns. Its recent reconstruction with rupee capital with a few dummy Indian directors on the board hardly changes the situation.

4. Tea Industry. India enjoys the enviable position of being the largest exporter of tea in the world, supplying more than 40% of the world demand for tea. It is a different type of industry, representing a combination of agriculture and industry.

For a long time China tea was supreme in European markets. It was in 1820 that indigenous tea was discovered in Assam The East India Company started an experimental garden in 1835 which was sold in 1840 to the Assam Co., which even today is the largest concern. Since then the industry made rapid progress. The Chinese tea was gradually ousted from the European markets. Between 1896-97 and 1938-39 exports from China decreased by 90% and those from India increased by 132%.

Cultivation of tea depends solely on climatic conditions. Tea gardens are found in Assam, Bengal, Bihar, Southern India and Northern India. But they are largely concentrated in West Bengal and Assam. Of the total area under tea in the Indian Union of 730,000 acres, nearly 73% occurs in Assam and the two contiguous districts of West Bengal; 20% is accounted for by South India. Production of tea in India has in recent years amounted to 540 million lb. per annum nearly, North India, Bengal and Assam contributing about 80% and South India's share being 17 or 18%. The production in 1947 touched the record figure of 545·6 million lb. as against 537·3 million lb. in 1946.

The yield of tea per acre varies from province to province, the highest being 728 lbs. per acres in Assam and the lowest 44 lbs. in Garhwal. The standard of tea cultivation in Kangra Valley is said to be very poor. It is suggested that the East Punjab Government should periodically place the services of scientific advisers at the disposal of the tea growers in Kangra.

The domestic market for the tea industry is comparatively undeveloped on account of prejudice and poverty. Therefore, the discovery of new foreign markets and the expansion of the existing ones is the very life and the soul of the tea industry. Economic depression in the 'thirties hit the tea industry very hard. On the one hand, there was over-production in all the tea-growing countries and, on the other, policy of aggressive economic nationalism resulting in stringent restrictions on imports and the lack of foreign exchange cut down the demand. There was a catastrophic fall in prices, 1932-33 being the worst year. To save the industry from utter ruin, an international agreement was entered into in 1933 for five years among the principal tea-producing countries of the world. The agreement was renewed in 1938 for the next five years. Under the agreement export quotas were assigned to the contracting countries from year to year.

The key to the problems of the tea industry will be found in India itself. At present the consumption of tea in India is very small but the teeming millions of India offer almost a limitless market. The Indian Tea Market Expansion Board has been carrying on a publicity campaign by opening tea shops, distributing free cups of tea, selling pice packets, through travelling cinemas, demonstrations and advertisements in the Press. It has been trying to fight the double prejudice, *i.e.*, prejudice against tea drinking based on the opinions of quacks and pseudo-medical men, and secondly, the belief that tea comes from gardens where Indians are treated worse than slaves. It is hoped that sustained propaganda will pay in the long run and the home market will expand still further. The present (1949) consumption of tea in India has been put in the neighbourhood of 150 million lb. It has almost doubled during the last 10 years.

The Indian tea industry has endeavoured, from comparatively early times, for improvement of both the quality and yield of tea by scientific research. The Indian Tea Association established in 1911 a research station at Tocklai which has been doing very useful work. A commission under F. L. Engledow, of Cambridge, made useful recommendations for intensifying research and adding its utility to the industry. A closer contact between the research station and the management of tea gardens will be highly beneficial.

World War II had an unsettling effect on the tea industry; the continental markets disappeared, prices fluctuated and export quotas had to be revised. But when Japan entered the war, important sources of supply like Formosa, China, Japan and Dutch East Indies were closed to the United Nations. The demand for Indian tea therefore increased. The war with its strain and fatigue vastly increased the demand for tea from the U.S.A., the U.K., Australia and the Middle East countries. Throughout the war the Indian tea industry had enjoyed a measure of prosperity. Neither production nor distribution raised any serious problems. Market was assured and the price was good. Labour troubles were practically unknown.

When the war was over, the manufacturers became nervous. But the circumstances made the tide to flow still in the industry's favour, as the British Ministry of Food was anxious to secure 350 million lb. of tea.

The tea industry has continued to complain of the shortage of tea chests. The home production is estimated at 2 million chests whereas the industry requires 4·6 million chests. The tea chests of local make are not only numerically insufficient but also qualitatively poor. In order to encourage plywood industry to fill the gap the revenue duty of 30% has been changed to a protective duty of 25%. The industry has also experienced a shortage of fertilizers, being supplied only 30-35% of its normal requirements.

Partition of the country has affected the tea industry in this manner. As a result of the referendum some 90,000 tea growing acres have fallen to the share of Eastern Pakistan.

The biggest headache of the tea industry is caused by the fear of approaching world surplus, which according to experts is inevitable by the middle of 1949. On the other hand, costs have gone very high, being two and a half to three times the pre-war level. When, therefore, the consumers have a wider selection, higher cost of Indian tea may be a serious handicap for it to compete in the world markets. Our producers must, therefore, concentrate in the production of quality teas. Unless we are able to adjust our costs to prices, there is a real danger that the industry may be engulfed by a depression similar to that of 1931.

During the next four or five years we may expect a keen competition from Japan, Formosa, China, Ceylon and Indonesia, the latter two being the strongest rivals. We must therefore reduce costs, improve quality and also packing. In the last analysis quality and price alone will determine the future of Indian tea.

The tea industry is singularly free from labour troubles which shows that industrial relations on the plantations are smooth and satisfactory. The Industrial Committee has decided to draw up a separate labour code for workers employed in plantations, because ordinary industrial legislation cannot be wholly applicable to plantations on account of peculiar conditions of employment there.

5. **Tobacco Industry.** India is indebted for tobacco to th Portuguese who are believed to have introduced it here in th beginning of the sixteenth century. The importance of the tobacc industry in India can be judged from the fact that the annua value of the crop has been estimated at Rs. 18 crores. India i the largest producer of tobacco, next only to the U.S A.

Tobacco in India is grown in five well-defined areas : (1) Nort Bengal area producing tobacco suitable for cigar, cheroots hooq and chewing ; (2) the Guntur area in Madras growing Virgini cigarette and pipe tobacco ; (3) North Bihar area for chewing an cigarettes ; (4) Gujarat area in Bombay and Baroda mainly f bidis ; Virginia tobacco is also being attempted ; and (5) Nipa area consisting of Belgaum and Satara districts of Bombay an some neighbouring States. But, besides these special tobacco-gro ing areas, tobacco is extensively grown in all parts of the count for local consumption. Tobacco grown in India is partly man factured in India and partly exported. The Indian Leaf Tobac Development Co. is the biggest purchaser and accounts for mo than half of the total crop. Numerous factories have been set during the last 20 years for manufacturing tobacco. Cigars a cheroots are specialities of Madras, bidis are made in almost principal cities but Poona, Jubbulpore and Nagpur are the ch centres. It is a very flourishing cottage industry in the C. P:, prov ing employment for about 50,000 persons. Hooqa tobacco is ma most everywhere but Rampur, Gorakhpur, Lucknow and Delhi 'e specially famous for it. Delhi and the U. P. also specialise in iewing tobacco and Madras and Mysore in snuff. But there being standardization, the qualities produced in different places differ.

Vigorous attempts have been made in recent years in improving e quality of tobacco grown in India and for exploring the possibi- ies of growing superior varieties In 1936 the Imperial Council of ricultural Research established a tobacco sub station at Guntur, and ricultural Departments in several provinces have set up their own search stations The Indian Leaf Tobacco Development Co. itself s done a lot in improving Indian tobacco grown in various parts the country. The Mysore Tobacco Co. has stimulated the culti- tion of Virginia tobacco in Mysore.

Steps have also been taken to improve marketing of tobacco India. The Indian Tobacco Association, representing the growers, alers and manufacturers, has been established to assist the trade standardizing and preparing the tobacco before marketing. The dras Commercial Crops Markets Act of 1939 seeks to regulate rketing practices in tobacco.

6. **Lac Industry**. India produces 49;000 to 50,000 tons of lac ry year and it is chiefly used for polishing furniture It is also d in gramophone records, for filling hollow gold and silver orna- nts and for lacquering wooden toys, penholders, etc. For these purposes India can hardly consume 3 per cent of the total duction of lac in the country and the rest is all exported, the S. A. being the most important customer.

The development of the lac industry has been stimulated by growth of the gramophone record industry which consumes ut 40 per cent of the world production of lac. In India about tons of lac is consumed annually by the gramophone record ustry.

Besides gramophone records, lac is utilized in foreign countries the manufacture of French polish, floor varnishes, insulating nishes and cements, grinding wheels, hats, leather dressings, er finishes, etc. This shows what a wide field lies open for the elopment of lac industry. We are yet far from making full use this valuable material. The Indian Lac Research Institute at nkum in Bihar is doing useful work in suggesting new openings the use of lac and improving its cultivation.

7. **Cinema Industry**. Film industry is one of our youngest istries. It celebrated its silver jubilee in 1939. But it has eloped very rapidly and already it has come to occupy the eighth e among the Indian industries. Its annual contribution to the tral and provincial exchequer amounts to Rs. 1·21 crores, entertainment tax yielding about Rs. 40 lakhs yearly. About importance of the film industry in India, therefore, there cannot be least doubt.

The first Indian film "Harish Chandra" was produced in 1913. The advent of the talkies accelerated the development of the industry. There are about 150 companies engaged in producing films and there are about 50 studios, the more important centres being Bombay, Calcutta, Madras and Poona. But Bombay accounts for two-thirds of the total number of films produced in the country and is, therefore, entitled to be called "India's Hollywood." In addition to about 500 touring cinemas, there were in 1943, 1,460 permanent cinema houses. The gross annual income from Indian films has been estimated at Rs. 2·40 crores. Capital investment in the production and distribution of films has been put at Rs. 8 crores, the yearly expenditure on production of films being Rs. 2 crores. The number of distributing companies is about 150.

But so far we have confined our activities to the production and distribution of films. For raw films and cinema equipment, we exclusively rely on foreign countries. The increasing demand for films in India should open out quite a promising field for some enterprising Indian industrialists to take to manufacture of raw films and cinema equipment.

Presiding over the sixth ordinary general meeting of the National Studios in January, 1946, Mr. J. K. Shrof sounded a note of warning to the industry. According to him, "Our studios are too small, while production is haphazard, ill-conceived and governed by personal whims and fancies." In order to ensure orderly growth and eliminate wasteful competition, the industry must be properly organized.

8. The Rayon Industry. Though the rayon industry in India is still in its infancy, yet it has rapidly grown and come to occupy a very important place in our economy. Among the textile industries it is next to cotton textile industry in importance.

It was only in 1936 that rayon weaving industry was started on an organized basis to take advantage of protection granted to cotton industry in that year. Up to 1936 rayon yarn was used only by the handloom weaver or by the mills in *Sari* borders. Production of pure rayon piece-goods was insignificant. But within a few years after 1936, several rayon weaving mills were set up to turn this infant industry into a major textile industry. Since the removal of control on the imports of rayon yarn many more mills have been established. There are at present (1949) 300 such weaving mills working on 15,000 looms. But the capacity of the industry is being rapidly enlarged by the new entrants as well as the extensions effected in the existing mills

The real silk manufacturers and the cotton textile manufacturers were at first very nervous at the establishment of the industry. But experience has falsified all their fears and it has now been proved that rayon products have a distinct market of their own and do not in any way impinge on the sphere of other textile industries.

The trouble about this industry is that it entirely depends on the imported yarn which mostly came from Japan and to some extent from Italy. It has got a very precarious existence. It is really a miracle how it pulled through the longest war in history when all supplies were totally cut off. Now that the industry has come to stay the Government must do all it can to rid it of this dependence. Three units are already under construction in Bombay, Travancore and Hyderabad with an aggregate capacity of 16½ tons of yarn per day. But our normal requirement is 70 tons per day. This gap must be filled up to make us self-sufficient. Two more schemes for the manufacture of rayon yarn are reported to be under active consideration, one in the U. P. and the other in Mysore.

9. Silk Industry. The position of silk as a cottage industry has already been reviewed. Up to 1830, India used to export large quantities of silk goods but we have seen how Indian silk goods came gradually to be ousted both from internal and external markets. We have also noticed how recently Government tried to help this industry through protection and otherwise.

Besides the cottage industry, silk factories have also been set up. But with a few honourable exceptions like Sassoon and Alliance Silk Co., Bombay, most of the factories are comparatively of a very small size working with a few hundred workmen. These factories have to rely almost exclusively on silk yarn imported from abroad, especially China and Japan. But there are several large tracts in India suitable for sericulture. There is no reason why aided by scientific research India should not be able to dispense with the raw silk and silk manufactures imported from abroad.

The raw silk consumption in India has been estimated at 4 million lb. of which normally 50% is met by home production. The Government has prepared plans to step up production to 3·2 million lb. by 1950. A Central Silk Board has been set up to guide and encourage the industry.

The disturbed conditions in Kashmir have hampered the production of silk fabrics.

10. Wool Manufactures. Apart from the woollen cottage ndustry which we have already discussed, woollen mill industry in ndia has also been developing to some extent

The first woollen mill was set up in 1876 at Kanpur. A few mills were established in the next decade ; the most important being he Egerton Woollen Mills at Dhariwal. World War I gave some timulus to the industry and three mills were set up in Bombay between 1919 and 1921. Severe foreign competition led to the liquidation of some mills in 1924. In the 'thirties the woollen industry was in the grip of depression. But the Government could not see ts way to accepting the Tariff Board's recommendation in 1934 for granting protection to the industry. Instead a grant of Rs. 5 lakhs pread over 5 years was given for the development of the cottage woollen industry.

The woollen manufactures include flannels, serges, tweeds, broad loth, blankets and rugs. The mills use largely Indian wool and only for finer fabrics they have to depend on Australian wool. Bombay, Kanpur, Dhariwal (East Punjab) and Bangalore are the chief centres of the industry.

The Indian climate being more suitable for cotton than woollen cloth, the possibilities for the expansion of the woollen industry are not so big. But considering large imports of wool, raw and manufactured, there is considerable field for further expansion of the industry. No doubt Indian wool is inferior but superior wool can be imported. Several other countries have developed their woollen industry with imported wool and there is no reason why this industry should not be further developed in India. Our mills at present satisfy only a fraction of our total demand.

World War II gave a great fillip to the woollen industry. The woollen mills in India worked to their maximum capacity to meet the clothing requirements of the growing Indian Army. Production of woollen goods during the first half of 1948 was estimated at 11·3 million lb. The main problem facing the industry in increasing production of finer counts is the shortage of woollen tops (merino) which are imported exclusively from Australia.

11. Salt Industry. Salt can be manufactured in many parts of India. Only in Bengal, Bihar and Orissa it is difficult to manufacture it on account of damp climate and the fresh Ganga water pouring into the sea making it difficult to make salt by evaporation.

There are two sources of salt in India. (1) Brine salt chiefly from Sambhar Lake in Rajputana; and (2) sea salt factories in Bombay and Madras.

The salt industry was given protection in 1930. The salt duty was continued up to 1938, although it was progressively reduced. With the resources at our command, India can easily hope to become self-sufficient in salt.

The Gandhi-Irwin Pact, 1933, gave an individual the right to manufacture salt for his own needs. This Pact was amended in 1947 which safeguarded this right for individual requirements and for local sale under express provision.

During the war the output of salt increased from 1·8 million tons to 2·2 million tons a year and it is hoped to increase it to 3·2 million tons within a decade.

In recent years the salt position as regards supply, price and quality has been very unsatisfactory. India's position has been further weakened with regard to salt by the partition. The loss of the rich Punjab Salt Range and Khewra mines for India has meant a loss of 25 lakh maunds of rock salt. Rock salt is very popular. The unpleasant fact of the partition is brought home to the masses in India when they have to take dirty-looking salt from Sambhar Lake.

It is necessary for us to take stock of the situation now and work for the realization of the ideal of self-sufficiency in the course of a few years. Our average *per capita* consumption is only 12 6 lb., as against the world average of 23 lbs. In estimating our needs for the future we must allow for an increase in human consumption, needs of the cattle and those of industries. Our industry needs to be reconstructed and further developed. Production must be stepped up. The industry must be rationalized for the purpose. Licences for making salt from sea should be issued more liberally. New sources of rock salt should be prospected. The Development Committee appointed by the Central Government is of the opinion that at the present rate of progress it should be possible to attain the goal of self-sufficiency by 1951.

12. Some other Industries. *Engineering Industries.* The engineering industry in India came into existence during the latter half of the last century. But it was mainly confined to repairing activity in connection with the railways. With the development of modern large-scale industry, workshops came to be established. Recently the Tata Iron and Steel Company has stimulated the development of several engineering lines so that now several types of tools and implements are made in India. But even now the engineering industry is chiefly a repairing industry. We still rely almost exclusively on imported machinery which on average comes to Rs. 16 crores worth yearly. To the value of machinery may be added transport, insurance and other charges. All this means a considerable initial handicap to the Indian industrialists. High capital cost, scarcity of efficient labour and internal competition are some of the difficulties that the engineering industry has to face. The engineering industry is centralized in the chief industrial centres, of Bombay, Calcutta, Kanpur, Nagpur, Ahmedabad, Madras, etc.

Paints Industry. The first factory for the manufacture of paints was set up in 1902 near Calcutta. This first venture proved to be quite lucky and had a prosperous career. The industry received some stimulus during World War I and since then it has been making a steady, though not marked, progress. India produces all the essential ingredients required in the making of paints, *e. g.*, turpentine, linseed-oil, red oxides, barium sulphate, etc. Production of paints has appreciably gone up during the last few years.

Soap Industry. Conditions for the manufacture of soap are quite favourable in India. Large quantities of vegetable oils are produced in the country and their supply can be increased still further. Only caustic alkalies have to be imported. There is a large home market, cheap labour, lower level of taxation and existence of import duty on foreign soap—all these factors go in favour of the Indian industry. The first Indian soap factory on modern lines was started in Meerut in 1879 by N. W. Soap Co. Under the influence of Swadeshi movement a number of factories were started in Bengal of which the Bulbul Soap Co., the National Soap Works and Oriental Soap Works deserve special mention. Production of soap on the eve of war (1914-18) was only 20,000 tons. The war provided a great stimulus. Between 1935 and 1939 there was a marked increase in production which amounted to 70,000 tons. Soap of all kinds and of excellent quality are being produced, washing soap being 90% of the total production. Not only are there small concerns making soap all over the country, but also big companies like Modi Manufacturing Company, the Tata Chemical Company, Godrej and Lever Brothers, etc., are manufacturing large quantities of good soap It is necessary to develop simultaneously the allied industries like box and barrel making. The Indian soap industry has so far made comparatively little use of fats and waste greases which form important materials for the soap industry abroad. The demand for soap is increasing and is bound to increase still further as the standard of living in India improves. The soap industry, therefore, seems to have quite a bright future The present estimate of production is 150,000 tons. Rationalization, research and improved methods are needed to put the industry on a stable basis and open out a vast field for future development.

Vegetable Ghee Industry. In recent years there has been an alarming increase in the production as well as consumption of vegetable ghee or Vanaspati ghee as it is generally called. There is a grave concern expressed over the consumption of this ghee. Expert opinion has been quoted to prove that it is detrimental to human health and physique, and experts on the opposite side have refuted these charges and have tried to prove that it is harmless and possesses great nutritive value. Experiments have been conducted on rats which have proved beyond doubt that the consumption of this ghee adversely affects eye sight and physique. There is a strong prejudice in India against this product. But the masses being extremely poor the sale of this ghee is on the increase. In matters of diet, conservatism is a virtue. It is the part of wisdom to avoid the consumption of this ghee till it is definitely proved to be harmless and till its nourishing properties have been firmly established. This product was first widely used in the West and as serious doubts arose as to the harmful effects on human consumption, it was mainly reserved for export.

During World War II, the production of Vanaspati has increased enormously.

13. Industrial Development Reviewed. We have made a rapid survey of the wide and varied industrial field of India. We have traced the origin and the development of various Indian industries and the problems confronting each of them. What is the measure of this industrial development ?

Looking at some important industries we find that besides jute and tea, production of which has always exceeded the home demand, on the eve of World War II India became practically self-sufficient in sugar, cement, cloth, iron and steel, paper and matches in recent years. India has come to take its place among the eight highly industrialized countries of the world. This seems to be an excellent record. Progress of industries was further accelerated during World War II, both in quality and quantity. Existing industries were expanded and many new industries were established.

But it should not blind us to the real situation. We are really still very backward industrially According to Sir M. Visvesvaraya[1], the total capital of organized industries is estimated at Rs. 700 crores of which not more than Rs. 300 crores worth capital is owned by Indians. Dominance of foreign capital in Indian industry is one of its danger spots. Although the population of the U. K. is only 13% of the Indian population, the number of industrial establishments there in 192 was 107,000 and capital outlay thereon in 1932 was equivalent to Rs. [illegible],067 crores The U. S. A, with 35% of the Indian population, had 174,1[illegible] industrial establishments in 1929 with capital outlay equal to Rs 23,000 crores. In Canada, with 3% of the Indian population, the number of industrial establishments in 1929 was 24,020 and the capital outlay Rs. 1 445 crores ; Japan, whose population is only 19% of ours, owned in 1928, 1,13,711 industrial establishments with capital outlay of Rs. 1,009 crores. These figures must have gone up considerably since then. It is quite clear that as compared with other countries, and considering our vast resources in men and material, our industrial development must be pronounced as insignificant. Only about 11% of our population is living in urban areas and the number of persons employed in organized industries is about 2%. The value of raw materials and semi-manufactured goods exported is nearly 60% of the total value of our exports, and the exports of manufactured articles is only 40% of the total On the imports side, the value of manufactured goods is 70% of the total value of our imports while that of raw Materials and semi finished goods only 30%. Thus we have not yet shifted from the position of being largely an exporter of raw materials and importer of manufactured goods. Our industrial progress has been very slow indeed.

But our industrial progress has not only been slow, it has also been uneven. It has been competitive rather than complementary. Our industrialists beat the trodden path : instead of initiating they simply imitate As soon as any new industrial opening is discovered there is a frantic rush to fill the gap ; factory is piled upon factory till the industry has ceased to be remunerative. Not only the same line is taken up but also the industrialists run to the same place to open a factory till the industry becomes highly centralized and unbalanced. Its location becomes unfavourable either from the point of view of markets as in the case of sugar, or of materials as in cotton or from source of power as cement industry. History of almost all major industries in India amply bears out this conclusion.

Besides, the foundation of our industrial superstructure is far from stable. We have exclusively to depend upon foreign countries for machinery, mill stores, accessories and many essential materials. Even technicians have often to be imported. The foreign capital has a strong grip over our industry. In almost all industrial spheres, the foreign concerns occupy leading positions.

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[1] *Vide Planned Economy for India* 1934.

The "key' or the basic industries, the development of which must, as a rule, precede the development of other industries, are still in a comparatively undeveloped state. No striking developments have yet taken place in the chemical and metallurgical industries. We are still largely engaged in industries which Europe developed in the last century When compared with the volume, variety and quality of imports, our industrial production pales into insignificance and appears to be of a very rudimentary character. Thus we are constrained to come to the conclusion that industrial development in India is not at all commensurate with the size of the country, its huge population and its vast and varied natural resources We are still in a primitive stage of industrial development.

But what are the reasons for the slow and unsatisfactory progress of our industries ? The question does not admit of any simple and straight answer Our social structure has something to do with it, and our political structure a great deal. Our illiteracy, ignorance and above all poverty must also share the blame. Foreign competition facilitated by free trade policy strangled many a promising industrial venture. The unsympathetic railway rates policy deprived them of a fair trial. The practice of purchasing stores through the India Office deprived them of a steady custom. The exchange policy often hit the Indian industries hard. Scarcity of skilled personnel, technicians and experts and comparative inefficiency of Indian labour are also largely responsible for the tardy growth of our industries. The facility with which certain manufactured articles could be imported, coupled with their low cost, deterred the Indian industrialists from taking up those lines. The failure of pioneering attempts frightened away Indian capital which became shy and avoided ventures into unexplored fields. The other factors militating against capital formation are the existence of small peasant proprietors and more even distribution of wealth. Further, commerce with quicker return and far less permanent commitments, had much greater attraction for the moneyed people in India than industry. Even the banks prefer to finance trade rather than industry. The absence of organized industrial finance is one of the principal difficulties that the Indian industries have to face. Other causes are the imperfect development of means of communication and transportation and absence of cheap motive power. These are some of the causes which, in their cumulative effect, have retarded industrial development in India.

14. Industrialization of East Punjab. East Punjab has been the first casualty of freedom in India, and had to pay the heaviest price for winning it. Its entire economy was disrupted by the aftermath of the partition.

This infant province is now without stable agriculture as all the magnificent irrigation works, the very soul of agriculture, have been left behind in West Punjab. East Punjab is also without organized industries.

Most of the people who could be called the 'capitalists' lived in West Punjab. Lahore was the cherished goal of all Punjabis and all the people of substance gravitated to it. Now these people have come out to East Punjab as paupers and a few of them, who could salvage their assets, have migrated to Delhi and other provinces The border province does not offer enough security to the intending investor. Thus capital here is both shy and scarce.

The industrialists who had their home in East Punjab before the partition have their money and machine intact. But where are the men to handle these machines? They were mostly Muslims who have gone to the homeland they have carved out for themselves leaving behind closed factories and idle machines, just as the non-Muslim industrialists of West Punjab have left their own factories behind. East Punjab is in a strange situation. There are men without machines, and machines without men The East Punjab Government is without a home and has not yet settled to serious work, the ministerial instability being a major factor.

What is the prospect of building up Industries? Although the Punjabis seem to have lost their all, yet they still possess one thing, *i e.*, grit. They have a brave hear tand a strong mind in a strong body. The way in which they have behaved in the worst of calamities that can befall a nation has elicited the unstinted admiration of their countrymen. Adversity has not been able to crush them under its weight which was very heavy indeed. They have not been demoralized; on the other hand, they have emerged stronger mentally and morally to grapple with their difficulties. Herein lies the hope, *i.e.* the Human Factor. It is time that the Punjabis looked ahead instead of looking back. They have got the character and capacity to build up from a scratch.

The Central Government has shown its readiness to afford every assistance to the unfortunate province to reconstruct its economy. The following measures may be suggested to put East Punjab again on its legs:

(*i*) An industrial survey may be conducted to take stock of the present position regarding the present and potential industrial capacity, the materials and the markets.

(*ii*) The displaced persons should be imparted technical training on a scale which may produce a large number of skilled workers and technicians in the shortest possible time on the 'earn as you learn' principle. Technical institutions may be multiplied for the purpose.

(*iii*) The displaced industrialists should be advanced liberal loans on very easy terms, interest to start after some years when the plant starts operations. They should be provided the necessary technical assistance, and machinery should be procured for them from abroad. A number of towns away from the border shou'd be developed into industrial centres where the industrialists should be given land at concession rates. The Government should build housing colonies for workers and others, provide road or rail links and offer other necessary facilities.

(*iv*) As even the best of the terms offered may not be able to overcome shyness or nervousness of capital, the Government should take large share in industrial enterprises either in partnership with private enterprise or purely as State enterprise.

(*v*) As new large enterprises will take time to materialize owing to delay and difficulties of procuring machinery from abroad, immediate steps should be taken to renovate and expand the existing plants by means of materials available in the country.

(*vi*) Much immediate relief can be expected from the reorganization and development of small-scale and cottage industries of which almost every town in East Punjab can boast. If they are run on a scientific and national basis, it may result in big accretion to the wealth of the province.

Prof. K. T. Shah prepared a scheme in 1941 for the industrialisation of the (undivided) Punjab. This scheme may be re-examined to see which parts of the scheme can be put into practice now in East Punjab. When men of East Punjab are married to money supplied by the Government of India, it will produce wonderful results in course of time. There is not the least doubt that when Bhakra and Nangal projects are completed, prosperity will once again smile in East Punjab. Production of processed foods like quaker oats, starch, glucose, biscuits, fruit preservation, vegetable oil, varnishes, wax, grease, lubricating oil, pharmaceutical and perfumery industries, wool manufactures, artificial silk, cigarette manufacture, dairy industry, leather and tanning industry, engineering industry especially making of small tools and agricultural implements are some of the lines which offer a fair field for development in East Punjab.

With a view to accelerating industrial development, the East Punjab Government has decided to liberalize the working of the State Aid to Industries Act by relaxing the requirements about security, raising the limit of the individual loans, and by reducing the advance in case of hire-purchase arrangements.

15. The Problem of Industrial Production. The problem of industrial production is one of the most important problems facing the country today. Production has shrunk to lamentably low level recently. During the war industrial production reached the peak with 4,871 million yards of cloth, 1·27 million tons of factory sugar and 1 37 million tons of steel ingots in 1943-44. In 1941 42 peak level had been touched in the case of jute goods 1 26 million tons, paper 1·87 million cwt., cement 2·22 million tons and coal 26·5 million tons. Since the war ended production has continued to fall. In 1947-48 production was estimated at 3,800 million yards for mill cloth, 1·05 million tons of jute goods, 0·95 million tons of factory sugar, 1·25 million cwt. of paper, 1·35 million tons of cement and 0·90 million tons of steel ingots. This recent fall in production can be ascribed to the following main causes:—

(*a*) Difficulty in securing new plant and machinery to replace old worn out machinery ;

(*b*) Absenteeism among workers and increasing use of the weapon of strikes by workers to improve their conditions of employment. During 1946 there was a loss of 12 million man-days in this manner as against 2½ million man-days in 1943. It is very necessary to devise effective machinery by which swift action could be taken to redress the just grievances of the workers. The industrial truce resolution has been honoured more in the breach than in the observance. The workers followed go-slow tactics.

(*c*) The transport bottle-neck has been the biggest hindrance. There have been enormous difficulties either in securing raw materials in time and in adequate quantities or in marketing the finished goods. Stocks accumulated and production slackened.

(*d*) The political developments are to no small extent responsible for holding up productive enterprise. At first there was uncertainty as to the ultimate decision on political matters and when it did come on August 15, 1947, it disrupted almost the entire economic life of the community. In East Punjab, Delhi and West Bengal many factories still remain sealed.

(*e*) The charters of the International Trade Organization have also adversely affected production, in so far as these agreements have prevented India from affording due protection to her nascent industries.

(*f*) The Marshall Plan is bound to hamper productive enterprise in India for American capital goods have now to be diverted to Europe. Also, we find that America is reverting to semi-wartime economy.

(*g*) Mr. Liaquat Ali Khan's Budget of 1947-48 had also put an undue strain on industry. Although the budget of 1948-49, and still more of 1949 50, affords substantial relief, the belief still persists in the industrial circles that the level of taxation is still too heavy to be borne by the Indian industry. Imposition of Capital Gains Tax is bound to curtail funds for replacements and reconstruction.

(*h*) Absence of any well-defined industrial policy of the Government also made the industrialists shy and cautious. The slogan of nationalization of industry which one hears so often these days also frightens away the prospective capitalist. The Government lacks the trained personnel to take over the complicated task of running factories. Initiative, enterprise and the spirit of taking risks which are essential to the conduct of business cannot be expected to be present in Government servants. Thus there is absolutely no fear of nationalization in the near future.

Among the other causes of fall in production we may mention that in the case of some commodities like coarse cloth, sugar, paper and steel control prices did not take full account of increased cost of production. The producers sometimes incurred a loss. There was no incentive to carry on production. Another cause is the reduction in the number of working hours from 54 to 48 per week from 1st August, 1946.

In October, 1948, the Government announced several concessions to stimulate production which include :—

(*i*) Exemption from income tax of profits up to a limit of 6% on capital employed for 5 years of new industrial undertakings which commence production within three years.

(*ii*) Depreciation allowance at double the existing rate on new buildings, plant and machinery and for factories working triple shifts.

(*iii*) The customs duty on plant and machinery has been halved and import duty on certain raw materials has been abolished and on others reduced.

The production figures for 1948 were a bit heartening and showed that the corner had been turned. As compared with the previous year, the output was greater in the case of textiles, cement, sugar, chemicals, fertilizers, bicycles, motor car batteries, light engineering and other miscelleneous industries. Dr. Syama Prasad Mookerjee gave this cheering message when presiding over the meeting of the Central Advisory Council for Industries on January 24, 1949: "If industrial production had gone down in 1947 to about 5% below the pre-war level, it has gone up to about 15% above the pre-war level in 1948." But there is not much ground for complacency. The production in the case of two basic industries, coal and steel, as well as in rubber, tea, leather and glass and in several others had gone down. It is really strange that in spite of expansion of the existing units, the industries have not reached either the peak output or the installed capacity. ✓ We should remember that ours is not a solvent economy. We have an adverse balance of trade and we have a programme of heavy food imports (4 million tons) and capital goods. It is imperative, therefore, that our industries go all-out in stepping up production.

Suggestions for further reading

1. Mukerjee—Economic Problems of Modern India.
2. Jain, P. C.—Industrial Problems of India.
3. Lokanathan—Industrial Organization of India.
4. Das—Industrial Enterprise in India.

5. Gandhi, M. P.—Cotton Industry (Annual).
   ,, —Sugar Industry (,,).
6. Soni—Indian Industry and its Problems.
7. Vakil—Economic Crisis in India.
   ,, —Economic Consequences of the Partition.
8. Shah, K.T.—Industrialization of the Punjab.
9. Chaudhri—The Evolution of Indian Industries.
10. Gadgil—The Industrial Evolution in India in Recent Times
11. Rutnagar—Bombay Industries : Cotton Mills.
12. Vakil and others—Growth of Trade and Industry in India
13. Reports of Tariff Board.
14. Report of Industrial Commission.
15. N. P. C.—Chemical Industries.

CHAPTER XIX

INDUSTRIAL FINANCE AND MANAGEMENT

1. Introduction. Finance is the life blood of industry. Adequate finance is absolutely necessary to oil the wheels of industrial machine, to ensure its smooth working or to prevent its breakdown. Lack of adequate and timely finance is one of the most important causes of slow and uneven development of industries in India. The story of industrial development in other countries has one lesson, *viz.*, finance is the hand-maid of industry. It is idle to expect any industrial finance unless appropriate financial institutions are set up to support the industrial structure.

The problem of industrial finance may be studied in connection with (*a*) the small-scale and medium-sized industries; and (*b*) the large-scale or organized industries.

2. Financing of Small and Medium-sized Industries. *Industrial Finance in rural areas.* The small producer requires finance for the purchase of raw material, to meet the expenses of production and to bridge the gap between production and final disposal of the goods.

In the rural areas, capital is extremely unorganized and as a matter of fact much capital is not available. The village money-lender is the one oasis of thrift in the vast desert of extravagance. The small producer being poor and unable to offer good security, the funds of the money-lender do not flow towards him except at exorbitant rates. "Every advantage is taken of debtor's illiteracy and helplessness."[1] Further, in the rural areas, there is a greater predilection in favour of investment in land or in jewellery or the money is simply hoarded. The co-operative banks confine their activities to current agricultural finance and can ill-afford to spare any money for local industrial enterprises. The local industries, therefore, practically starve for lack of funds or they have to pay unduly high rates.

Industrial Finance in urban centres. In the cities, capital is better mobilized. In almost every city, there is either a branch of the Imperial Bank or of some other joint stock bank. The position has considerably improved in recent years, for a large number of banking concerns have been floated. But the requirements of finance in the urban areas, both for the cottage worker and the middle-sized industries like flour mills, rice mills, printing presses, small match factories, hosiery, soap, sports factories, iron and brass foundries, etc., are greater, for their operations are on a larger scale.

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[1] Report of the Bombay Banking Enquiry Committee, 1931, p. 186.

To afford financial help to the cottage worker, a number of middle-men, besides the ordinary *sahukar*, have appeared on the scene. The *mahajan* gives a cash loan, and if he is also a dealer in raw material, he supplies it on credit. The *mahajan* takes full advantage of the poverty and isolation of the artisan and charges a high price for this accommodation. According to the Punjab Banking Enquiry Committee, the Punjab weavers have to pay 12½% to 37%. These rates are certainly too high for any industry to bear.

The middle-sized industries fare no better. Although they are started by men of substance, yet they, too, often need assistance and the indigenous bankers, lending on personal security, charge high rates ranging from 9 to 15%. The joint stock banks advance loanagainst fixed capital to the extent of 20 to 30% of the estimated value of property and machinery, and against stock to the extent of 70%. The terms on which the banks lend are regarded as inconvenient and irksome. "There is no doubt that the small *entrepreneur* ......is hampered seriously by the lack of banks and of finance at reasonable rates."[1]

In recent years, the industrial side of the co-operative movement has been receiving special attention especially since 1935 when the Government of India sanctioned an annual grant for the development of handloom industry. In all provinces industrial co-operative societies were established to meet the financial needs of the cottage industries. The co-operative movement has immense possibilities. In Russia, since the Revolution, the co-operative movement has been playing an "important part in the industrial sphere."[2] But the movement in India is still in its infancy and it cannot yet meet adequately the financial needs of the small industrialist.

Another source of financial assistance is the State. The State aid to Industries Acts are in operation in all the provinces But the experience of State loans has not been a happy one, for a large number of such loans became frozen and had to be written off. A Government loan with its elaborate formalities gives unwelcome publicity, and industrialists, who are zealous of their credit, avoid the inquisitorial gaze of the Government officials, who, in their turn, are not competent to judge the industrial proposition and the credit-worthiness of a party. The Fifth Industries Conference held in 1933 which was attended by various provincial representatives, rightly came to the conclusion that these loans had not been successful in stimulating industrial development to any appreciable extent[3] The scheme of direct State assistance, therefore, does not seem to hold out any promise.

Industrial Credit Corporations for the financing of small industries should be set up in all provinces. A beginning in this direction has already been made in the U. P. and West Bengal.

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[1] Report of the Industrial Commission, 1918, p. 178.

[2] See Blanc—*Co-operative Movement in Russia*, 1925, p. 168.

[3] Bulletins of Indian Industries and Labour No. 50, p. 12.

3. Financing of Large-scale Industry. *Their Needs.* The large-scale industry needs funds for block or capital expenditure, *i.e.*, for the purchase of land, erection of the factory building, for setting up machinery, etc., and in the case of a going concern for extensions and replacements. Besides this, funds are also required for the purchase of materials, for stores, for other expenses incidental to production and marketing, and for meeting day-to-day requirements of the industry. This is known as the working capital.

How they should be Financed. Dr. Jeidels, a foreign banking expert, is of the opinion that not only block but also normal working capital has to be furnished out of the firm's own initial capital.[1] But strict adherence to this view will prevent even many sound concerns from seeing the light of the day, for it is rare that an industrial concern in India has raised sufficient capital for both these purposes. In a country where capital is notoriously shy and nervous and where hoarding in one form or other is all but universal, it is idle to expect that a company will be able to raise sufficient funds to meet its requirements of fixed, floating and working capital. The proportion that share capital bears to the total capital requirements is 33 per cent. for Bombay, 25 per cent. at Ahmedabad and 13 per cent. at Sholapur.[2]

The Central Banking Enquiry Committee held that the industrial concern having raised initial capital sufficient for block could rely on commercial banks for the whole of the working capital and also temporarily for funds required for extensions.[3] This will obviously place too much strain on the commercial banks. The sound principle seems to be that the concern should raise all the initial capital for block *plus* that amount of working capital which is permanently locked up, and for any working capital required over and above this it may rely on the banks to supply it.

But this sound principle has been honoured in India more in the breach than in the observance, with serious consequences to the investor, the industry and the promoters themselves. There are not a few cases when the industrial concerns found themselves in financial difficulties shortly after start. The Government had once to come to the rescue of the Tata Iron and Steel Company by giving a loan of Rs. 50 lakhs. The Indian Wire and Steel Products, Jamshedpur, failed to increase its output due to shortage of capital and the Government of Bihar and Orissa had to sanction in 1924 a loan of Rs. 5 lakhs. The under-capitalization of the Indian industrial concerns is thus chronic and universal.

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[1] Dr. Jeidels—Memorandum on Industrial Finance.
Report of the Indian Central Banking Enquiry Committee, 1931, Vol. IV, p. 146.

[2] Report of the Textile Labour Enquiry Committee, 1938, p. 51.

[3] Ibid., Vol. I, pp. 275, 298-99.

How they are actually financed : (*i*) *Shares and Debentures.* Our industries raise the bulk of their share capital in the form of ordinary shares and the tendency in recent years has been to issue them in lower denominations. Debentures do not seem to be popular with the Indian investors, and the companies, too, hesitate to issue them for fear of losing credit. The various causes that limit the market for debentures in India are : heavy legal and stamp charges and underwriting commission, heavy transfer fee, limited return, no prospect of capital appreciation, frequent failures of industrial investments, practice of insurance companies to invest in the gilt-edge, etc. The companies cannot, therefore, raise enough capital for their normal requirements.

(*ii*) *Managing Agents.* The inadequacy of the amounts raised through shares and debenture capital for entire block and normal working capital, compels our industrial concerns to seek the aid of other financing agencies. But the perusal of the Banking Enquiry Committee Reports and the evidence tendered before them gives one the impression that they do not receive any sympathetic treatment from the money market. As regards initial capital the facilities are inadequate. The public prefer to invest in Government Securities and Municipal or Trust loans.[1] Thus the paid up capital often does not cover even the block. This makes the finances of the company precarious and throws them at the mercy of managing agents and other financial houses. The managing agents buy bulk of shares, advance money for extensions, and also come to the aid of the concern in times of distress. We shall examine the role that the managing agents play in our industries in a later section.

(*iii*) *Deposits.* There is another source of funds, *viz.*, deposits from the public. This system is specially prevalent at Ahmedabad. But deposits have been described as 'fair-weather friend' and are likely to desert at the slightest shock of adversity. Besides, it is unsound to finance schemes of capital expenditure out of these short-term deposits.

(*iv*) *Cash Credit.* Short-term loans on the cash credit system can be obtained from the commercial bank on the security of stock, and, in some cases, on the additional guarantee of managing agents. But the cash credit system fails during depression for either the amounts are recalled, which leads to forced sales accentuating the depression or the mill-owners are asked to increase the security which is not always easy.

Apart from these main sources tapped by the cotton mills, the various other industries have evolved their own system of finance. The tea companies charge a refundable admission fee of Rs. 20-25 per share not bearing any interest and the proceeds are spent on initial expenditure. Some of the tea gardens have to borrow from indigenous bankers and loan offices at a very high rate. The well-established gardens can get accommodation from some firms of

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1. Report of the Central Banking Enquiry Committee (Majority Report), Vol. I, Part I, p. 290.

brokers who act as intermediaries between them and the Imperial Bank. The Tata Iron & Steel Co., has cash credit arrangements with the Imperial Bank and also raises large amounts in the form of one year's deposits. The Indian coal firms have to borrow from indigenous bankers even at 24 to 30 per cent. The sugar industry receives deposits from selling agents and from the public. The jute industry secures loans from the banks on the security of stocks.

4. Our Banks and Industry. Conflicting opinions were expressed before the Central Banking Enquiry Committee about the financial assistance given by our banks to industry. But on the whole it appears that our banks have been working on too rigid and orthodox lines to be of much use to the industry. Their unwillingness to advance money on personal security or on the security of block, even though unencumbered, and their insistence on full backing of tangible and easily realizable security detracts from their utility to the industry. Hypothecation of stocks on which they generally insist, involving as it does a visible control by the bank, damages the credit of the party and deters them from availing even of the very limited facilities provided by the banks. "Industry in India is face to face with banks run on ideal lines."[1]

There is no member of our money market whose avowed aim is to help industry. The Imperial Bank has its hands full with ordinary commercial banking business and there are not many other joint stock banks which by experience and financial strength are competent to take up the task of financing the industries. The foreign exchange banks are busy in their own sphere, and do not feel interested in financing Indian industries. The indigenous banks find the financing of trade and ordinary money-lending too profitable to turn to industries. Besides, their resources are too meagre to be of any substantial aid to industries. The co-operative banks are meant to help the agriculturists. Thus "no banking agency cultivates industrial relations'."[2]

Our banks generally invest their funds either in Government Securities and give advances against merchandise actually deposited in their go-downs or if kept with the customer, some other legal formalities are gone through. None of these practices is helpful to industry which is thus starved financially. As the Marwari Chamber of Commerce pointed out to the Central Banking Enquiry Committee, "the sum total of the assistance given by the joint stock banks is an almost negligible quantity."[3] Mr. Manu Subedar, in the Minority Report, criticized in scathing terms the treatment accorded to industry by the banks. He observes : "The banks have done a disservice to themselves and to industry through an exaggerated adherence to the principle of short-term investment."[4]

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[1] Indian Central Banking Enquiry Committee (Minority Report), 1931, Vol. I, Part II, p. 333.

[2] Dr Jeidels—Memorandum on Industrial Finance. Report of the Indian Central Banking Enquiry Committee, 1931, Vol. IV, p. 148

[3] Ibid., Vol. 2, p. 560.

[4] *Vide* Report, p. 327,

The banks have their own difficulties. They have to maintain a condition of maximum liquidity to meet the demands of their depositors. They also lack the necessary knowledge and equipment to determine the trustworthiness of an industrial concern. The industrialists themselves are unwillingto disclose fully and unreservedly their true state of affairs. Floatation of fraudulent concerns and their failure, periodic recurrence of depression and precarious position of Indian industries owing to the uncertainties of the fiscal policy also add to their difficulties. But when all is said, the fact remains that the banks have shown clak of sympathy and an attitude of unconcern to the development of our industries. Our banks must give up this touch-me-not attitude with regard to industries.

5. Industrial Finance in Other Countries. Banks in Germany have played an important role in the development of industries. Special banking institutions like Schoffhausen' Scher Bank Verein were set up to help industry. Many leading German banks known as the "D" banks have come to acquire vast industrial connections. Having a large share capital of long-term deposits and equipped with a wide range of technical knowledge, the German banks are in the best position to help industry. They initiate industrial enterprises and find capital for them either by subscribing themselves, hoping to unload later, or by underwriting the shares and issuing them to the investing public. They nominate their own directors on the boards of companies they have helped. To use Dr. Jeidels's words: "The banks attend an industrial undertaking from its birth to its death."[1] The banks in other countries of the European Continent follow the same policy. The 'Big Five' in Belgium, Banques de Credit Mobilier in France, and Societic Financiara Italiana and Banco Nationale de Credits in Italy have contributed to the prosperity of industry in their respective countries.

In Japan, like India, there was a dearth of capital and a traditional preference for investment in land. The Japanese Government had to make special efforts to mobilize capital and turn it into industrial channels. The Industrial Bank of Japan was established in 1902. With the approval of the Minister of Finance it can issue, underwrite or even subscribe to share capital of industrial concerns. It has a committee of experts who periodically visit factories and keep it fully informed about the condition of industry. It has shown special solictude for small industrialists by helping men of ability and excellent business record without any tangible security. Even ordinary joint stock banks give long-term advances to industrial enterprises and several concerns were rescued by them during the industrial crisis of 19 0. The Industrial Investigation Association was formed by banks and trust companies to facilitate retioanlization of Japanese industry. For the financing of new enterprises bank deposits account for 63 per cent.[2] Almost every big Japanese

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1. Whale, P. B.—Joint Stock Banking in Germany, 1930. p. 52.
2. Mitubishi Economic Research Bvreau—Japanese Trade and Industra 1936, P. 82.

firm has a bank established in connection with it.[1] The famous banking houses of Mitsubishi, Mitsui, Sumitomo and Yasuda have given valuable financial assistance to industries.

The banks in America, too, have actively interested themselves in industrial floatations and have formed subsidiary security companies for the purpose. "In building up most of the great American corporations, some house or bank has played a leading role and relation usually remained close and continuous one.[2]" The American banks are no longer content with furnishing short-term credit.[3] Under the Federal Reserve Bank Act, 1934, the Federal Reserve Banks are authorized to make direct working capital advances and to buy or discount industrial bonds maturing within five years. A method of group finance has been developed in America by which larger banks 'pump' credit into the country through the smaller banks.

The English banks, too, in recent years have departed from their traditional policy of purely commercial banking and of aloofness from industry. The Bank of England came to the help of steel industry and, through its support to the Lancashire Cotton Corporation, contributed to the rationalization of textile industries. A subsidiary company, the Securities Management Trust Ltd., was formed in 1929 to help in the work of industrial reorganization. In 1930 was established Bankers' Industrial Development Co., in which every bank and financial house of first-rate importance took up shares. It represents co-operation among banks to assist industry. The company took a leading part in the financing of Lancashire Steel Trust [4] In 1934 the Bank of England lent its support in the formation of Credit for Industry Ltd.

An Industrial Finance Department has been created in the Australian Commonwealth Bank with the object of providing long-term finance to industries.

We, therefore, find that the Government and the banks in other countries have actively interested themselves in looking after the financial requirements of their industries.

6. Suggestions for Improving Industrial Finance. The above survey of industrial finance shows that our industries are receiving little assistance from our banks and we have none of the special institutions like issue houses of England or other institutions set up recently. In the case of our industries, either adequate financial assistance is not forthcoming or it is given almost at prohibitive price.

But this is not because sufficient capital does not exist in India. Although India is admittedly poor, yet the requirements of

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1. Allen—Modern Japan and Its Problems, p. 174.
2. Committee on Finance and Industry, 1931, Report p. 164.
3. Vide Memorandum on Commercial Banks, 1913-1929, League of Nations, p. 329, and also Memorandum, etc., 1925-33, p. 238.
4. Basu—Industrial Finance, 1938, p. 54.

her industries, too, in the aggregate are not very large. The fact is that no expert and reliable guidance is available to the average Indian investor who himself can hardly be expected to judge the profitableness and safety of an investment. The yearly recurrence of so many company failures frightens him. In the words of the Industrial Commission: "The difficulty in raising capital for industries is mainly the measure, even in India, not of the insufficiency or inaccessibility of money but of the opinion which its possessors hold of the industrial propositions put before them."

In order to make up the deficiencies of industrial finance in India, the following suggestions can be made :—(1) The big commercial banks should develop a sympathetic attitude towards industries and should maintain close and continuous association with them so that they may be able to give timely and adequate aid to them, consistent, of course, with their own safety. In the words of Dr. Jeidels: 'Capital market in India seems to be large enough to give room to a certain activity of banks in the field of industrial financing."[1] But they should avoid being entangled too much. "A banker must never forget that he cannot, and must not, be an industrialist."[2] These banks can at least help in the formation of special institutions, as in England, to act as intermediaries between the industry and the investor, on the one hand, and as financial advisers to existing industrial concerns, on the other. They should arrange for underwriting the issues and provide temporary finance, and even long term credit, in anticipation of this issue. They should assist in the reorganization and rationalization of the existing industries and in the establishment of new enterprises.

(2) We also should have industrial banks with a large proportion of share capital and receiving long-term deposits to specialize in the business of industrial finance. The Government might help by taking part of the share capital or by guaranteeing a minimum dividend or the advances given by the banks.

(3) To help the small investor, who cannot make a discriminating choice between the different securities offered to him, we should have investment trusts, which hold or deal in shares so that they can provide the small investor with an opportunity of buying "blended packets" of a number of securities thus diversifying his investment and spreading the risk.

(4) Special banking institutions may be started to mobilize the small and scattered amounts of capital. They should cater for the needs of the small depositor by offering him better terms and facilities.

(5) It is also necessary to develop a bill market in India by liberal provision of discount and rediscount facilities so that

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1. Vide Report, p. 179.

2. Dr. Goldschmidt—quoted by the Committee on Finance and Industry 1931, Report p. 168.

business men may be able to escape the formalities and inconveniences inherent in the cash credit system.

(6) In the U. S. A. and Japan insurance companies play an important part in providing long-term finance. But in India the insurance companies are required by statute to invest 55% of their assets in Government or Government-approved securities. This is a great handicap and must be removed.

Our industries often languish for want of finance while vast amounts of capital lie dormant. Those that have been mobilized are not available to them except at an exorbitant price. If the measures suggested above are adopted, it may be hoped that a big stumbling block will be removed from the path of industrial development in India.

7. **Industrial Finance Corporation.** An Industrial Finance Corporation Act came into force on July 1, 1948. As provided in the Act, the object is to provide credit for medium and long term capital requirements of industries, which are outside the normal activities of the commercial banks. The share capital is Rs. 5 crores, the shares to be held jointly by the Central Government, the Reserve Bank, Scheduled Banks, insurance companies, investment trusts and similar financial institutions. There will be no private holding of shares.

The shares of the Corporation will be guaranteed by the Central Government as to repayment of the principal and payment of dividend not exceeding 2½%

The Corporation will be authorized to issue bonds and debentures for amounts which, together with the contingent liabilities of the Corporation, shall not exceed four times the amount of the paid-up capital. The Central Government will guarantee such bonds and debentures as to repayment of principal and payment of interest not exceeding 2½%.

The Corporation may accept deposits from the public repayable after a period of not less than ten years.

The Corporation will be authorized to make long-term loans to industrial undertakings, repayable within a period not exceeding 25 years, and to underwrite the issue of shares and debentures subject to the provision that the corporation will be required to dispose of any shares or debentures acquired by it in fulfilment of its underwriting liability within a period of seven years.

Industrial concerns owned by the State are outside its scope. The Corporation only finances private industrial enterprises without becoming a partner. Its activities supplement and not compete with those of the commercial banks which cannot grant accommodation of the type and for the length of time that the corporation can do. The Corporation pays special importance to the development of industries of strategic and national importance. The financing of small and medium industries is primarily the concern of provincial finance corporations which have been set up in several provinces or are in the process of being set up.

In the short time that the Corporation has been in existence, it has helped so far (April 1949) 12 different industries.

8. The Problem of Foreign Capital. One aspect of industrial development in India which needs special attention is the dominance of foreign capital. It is difficult to form an accurate estimate of the extent of foreign capital in India.[1] But it is enough for our purpose to remember that the amount of foreign capital in India is much larger than the Indian capital. Although, apart from cotton mill industry which has been its peculiar domain, the Indian capital in recent years has become much bolder and has made considerable headway in cement, sugar, insurance, banking, paper companies and even in jute and tea companies, yet it requires no statistical proof to show that leading concerns in almost all industrial lines are under foreign enterprise and are run with foreign capital.

9. Advantages of Foreign Capital. Foreign capital confers considerable benefit on the country using it. It may even be indispensable for accelerating economic development of a country when there is dearth of indigenous capital. All the Dominions, the U. S. A. and Japan borrowed capital from abroad for the exploitation of their natural resources. Foreign capital undoubtedly adds to the national wealth of the country. Even if profits go out the wages constitute an important gain. The use of foreign capital results in the creation of assets which may more than cover the payment of capital and interest. The railways and canals provided with foreign capital will be almost a perennial source of national income when foreign capital has been repaid. Foreign capital, therefore, can be an important means of bringing about economic prosperity.

The foreign capitalist generally bears the losses in the pioneering stage and this is a gain to the country. Later, the indigenous capital can take advantage of the established lines and go ahead. We have seen how the early attempts in India in glass, and iron and steel industries failed with losses to foreign *entrepreneurs*.

Still another advantage is the technical knowledge brought into the country. The foreign capitalist sets up an efficient organization and introduces a new technique. If this is gradually imparted and passed on to the *entrepreneurs* in the country, the gain is undoubtedly great. But it is a big 'IF'. If the foreign capitalist sedulously guards the business secrets, no material gain results to the country.

10. Abuses of Foreign Capital. But the use of foreign capital is generally associated with certain evils. The greatest evil is of a political character. It is said that "Flag follows the Trade." A country using foreign capital soon passes under foreign domination and several political complications are created. Egypt and China have suffered from this domination. In India, also vested interests were created. They were to identify themselves with the country they worked in, and were at once alarmed when there was a move to grant any political power to India. The foreign capitalist in India clamoured for and secured, strongest safeguards in the Constitution of 1935 and he rendered himself obnoxious to the Indian politicians by his persistent anti-Indian attitude.

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[1] It is said to be anything between £800 and £1,200 million. (B. P. Adarkar—Fiscal and Commerical Policy in Industrial Problems of India, edited by P. C. Jain, p 169.)

Another drawback is that the natural resources of the country may be exploited for the benefit of a foreign country and to the everlasting detriment of the country concerned. Some would prefer to wait till the indigenous enterprise and capital are forthcoming and not develop the resources of the country at all till then.

Foreign capital with foreign control is especially dangerous in the case of "key" industries and industries connected with national defence. This may constitute a serious threat to the independence of the country. It may prove too high a price for economic development.

It is also seen that higher and important positions in foreign concerns are reserved for their own nationals and Indians have to be merely content to be "hewers of wood and drawers of water." No apprentices are trained, and technique and processes are zealously kept secret. In such a case the country derives little benefit from the use of foreign capital and suffers from a galling sense of inferiority.

The trouble is that alien concerns remain for ever alien. They take away the profits, and it represents a constant economic drain on the country.

But it is well to remember that these objections are against foreign control and not foreign capital. Foreign capital without foreign management and foreign control may be quite welcome and may be conducive to the economic well being of the country. If, therefore, foreign capital is used under proper safeguards, there may be no harm and much good may result instead.

11. Restrictions on Foreign Capital. In order to derive the maximum benefit from the use of foreign capital and reduce its disadvantage to the minimum, some restrictions on foreign capital seem to be called for. It has been proposed that the foreign concerns should be registered in India in rupee capital so that Indian investors may get an opportunity of acquiring a share in the capital. Further, that a portion of the share capital should be reserved for Indians and that a certain number of seats on the board of directors should be reserved for Indians. It is also suggested that these concerns should undertake to provide ample opportunities for the training of Indian apprentices. No doubt there are practical difficulties in actually carrying out these suggestions. The majority of the Fiscal Commission and External Capital Committee did not believe in their efficacy. But it is worth while to give a trial.

In a resolution issued on April 6, 1948, the Government announced its policy regarding participation of foreign capital. It was stated that as a rule, the major interest in ownership and effective control of an undertaking should be in Indian hands. Feeling the great need of capital the Government is now prepared to let foreign capital have control for a limited period.

The position now is that we need vast capital to accelerate economic development of the country in order to improve the standard of living of the masses. Basic industries have to be built up. We have now to look to our defences unaided by the British We must build ships and shipping yards, build up an air force, and erect a large number of ordnance factories. We have to feed our ever-growing population and for that purpose reclaim waste lands and complete the multi-purpose projects within the shortest possible time. All this needs capital which we woefully lack. Foreign capital is needed not merely to supplement our meagre capital resources but also because scientific, technical and industrial knowledge and capital equipment can best be secured along with foreign capital. We have again, therefore, to woo the foreign capitalist. The Prime Minister, in his statement made in the Constituent Assembly in April, 1949, has tried to set at rest all the apprehensions of the foreign capitalist. He gave the assurance that the existing foreign interests would be free from any discriminatory restrictions, they would continue to enjoy facilities, for remittance of profits and if any foreign enterprise was compulsorily acquired compensations would be paid on a fair basis. Now that we have got our own Government, the sting has been taken out from foreign capitalist. We are now in a position to derive maximum advantage without any of the evils.

12. The Managing Agency System. A characteristic feature of the management of Indian industries is the prevalence, almost universal, of the managing agency system. The managing agency is generally a partnership and sometimes a joint stock concern, formed for floating a concern and to take over its management. It is a curious appendage to the joint stock organization in India so as fundamentally to alter its character and working.

The *raison d'etre* of the system lies in the peculiar economic conditions obtaining in India especially with regard to the availability of managerial talent and financial facilities. The shyness of Indian capital and consequent inadequacy of the amounts raised from the investing public, the late development of joint stock banking, the absence of special financial institutions like the issuing houses, the lack of competent directorate and the practices of commercial banks relating to advances, are some of the causes that have conspired to throw industrial enterprise in India into the arms of the managing agents.

Besides purchasing materials and machinery, selling finished goods and arranging for insurance of plant, buildings and stock-in-trade on behalf of the concerns they manage, the managing agents perform three principal functions: (1) pioneering; (2) running the routine machinery of the concern; and (3) providing finance. The managing agents do the preliminary prospecting to bring the concern into existence and place it on its legs. They also carry on day-to-day business. Their financial interest in the concern is quite considerable. They are the principal shareholders and, besides lending substantial amounts to the company themselves, they arrange for finance from the banks where their personal guarantee is almost invariably necessary. It is also their reputation and standing which induce some moneyed people to place their money with the mill as a deposit. Of the total loans secured and unsecured of the Bombay cotton mills advances by the managing agents amounted to nearly 76 per cent.[1] At Ahmedabad they hold 25 to 50 per cent of the shares and their share in the deposits is 20 per cent.[2] The managing agents are, in short, promoters, financiers, managers, and agents, all rolled in one.

Their remuneration takes the form of a fixed monthly allowance intended to cover the expenses of clerical and secretarial establishment plus a fixed minimum commission and a percentage on profits besides. A commission on profits brings about a closer identity between the interests of the shareholders and those of the managing agents.

13. Criticism of the Managing Agency System. The managing agency system has been subjected to a close examination from time to time, especially at the time of passing of the Indian Companies (Amendment) Act in 1936.[3] There are two sides: the evil and the good.

Evils. Among the several evils attributed to the system may be mentioned the subordination of the interest of the shareholders to those of the managing agents, opportunities for fraud and exploitation and the clash between the interests of the various firms under the same managing agency.

The system has hindered the growth of independent and capable directorate. The directors are mere figureheads and puppets in the hands of the managing agents. Out of 175 directors of Bombay cotton mills in 1925, 95 were agency directors.[4] The managing agents decide and the directors register those decisions. Mr. J. A. Wadia, a director of 13 cotton mills, stated before the Tariff Board in 1927, that if the directors took active part, they had to go.

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[1] Report of the Textile Labour Enquiry Committee, 1938, p. 53.

[2] Report of Ahmedabad Millowners' Association, 1935, p. 138.

[3] For detailed discussion reference may be made to Reports of the Indian Industrial Commission, 1918, pp. 12-13, Indian Cotton Textile Tariff Board, 1927, Vol. I, pp. 85-92, 154, Vol. II, Evidence of Bombay, Baroda and Ahmedabad Millowners' Association, Vol. IV, Indian Central Banking Enquiry Committee (Majority) Report, pp. 245-250, and (Minority) Report, pp. 330-332, and Report of Indian Tariff Board on Cotton Industry, 1932, Chapter IV.

[4] Rutnagar—Bombay Industries: Cotton Mills, 1927, p. 253.

The development of sound relations between the industry and the banking system has also been hindered, for the banks lend on the guarantee of the managing agents and not on the intrinsic strength of the concern.

Another count against the system is that the agency firms have too many concerns under them. In the words of the Bihar and Orissa Banking Enquiry Committee: "They have got too many irons in the vast and uproarious fire of their activities, their outlook is too wide and the centre of their operations too far removed and financial scale too large." Andrew Yule and Co., Calcutta, for example, manages 54 concerns.

In the hands of unscrupulous agents, the system has led to gross abuses like receiving secret and illicit commissions, embezzlement, deliberately bolstering up the share values and then unloading at the top level compelling the market ' to hold the baby," callous disregard of the interests of the company and hundred and one ways of exploiting the ignorant and the unwary investor. Here is a strong indictment: "They speculated in the shares of the company; losing contracts were openly passed on to the mills. Cotton was purchased by agents whose honesty was more than doubtful; coal purchased was defective in weight and quality and cotton was manufactured by machinery that was loaded with surreptitious commission. The factory pay-sheet was charged with useless or fictitious employees. Every canon of honest trading and manufacturing seemed to have turned upside down and the whole, when considered together, gave one the impression that the industry existed for no other purpose than to support a gigantic system of swindling."[1] This is no doubt very strong language and a bit exaggerated, yet the managing agency system cannot be exonerated of some of the charges mentioned above.

Benefits But there are also certain advantages which can be claimed for the managing agency system The good managing agents, who have zealously guarded their reputation for integrity and fair dealings and whose competence to manage the concern is unquestioned, have made this system yield the best of results. In particular, they have made the advantages of integration available to the various concerns under them. Various economies, internal and external, have been realized, because one agency sells goods and buys materials, machinery and mill stores on behalf of a number of concerns and one office manages them. Financial co-operation among various concerns has been rendered possible, for the surplus funds of one concern are lent out to another which may be in need.

The managing agency system combines the advantages of a partnership with those of the joint stock organization. The keen self interest, initiative, virility, resourcefulness and adaptability of the partnership are harnessed into the service of a joint stock company.

The apparent stiffness of the agreements, in actual practice, is considerably toned down. Some managing agents voluntarily relinquish their commission in hard times. By their timely financial aid they have in many cases prevented the ruin of industrial concerns and brought them to a profitable stage. Although, as Mr. Manu Subedar remarks, "whereas the weaker and the less desirable side is inherent in the system," yet it has also large potentialities for good.

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[1] Ibid--pp. 50-51.

In conclusion, we may agree with the view of the Industrial Commission that the system has a far greater list of successes to its credit than can be shown by ordinary company management under individual managing directors. All the same it must be said that the system is very expensive and the Indian industry can ill-afford to bear its cost. Not many managing agents can claim princely salaries as the minimum amount of commission guaranteed to them. As the concern becomes well established and the period of risk is over, the remuneration of the managing agents may well be scaled down.

It may be suggested that the managing agents should introduce internal reforms, apply the principles of scientific management to office organization, acquire technical knowledge and administrative ability, cultivate a sense of responsibility, public spirit and scrupulous regard for the concern they manage and should discard get-rich-quick methods. They should explore new avenues of industrial development and pioneer new concerns Those who are conservative and are reluctant to launch new ventures should have really no place.

Several improvements have been effected by the Indian Companies Amendment Act (1936) which has been called the Magna Carta of Indian shareholders. Their term is now fixed for 20 years, but can be renewed. They can be removed earlier if convicted of certain offences or if adjudged insolvent. Their remuneration is fixed as a percentage of net profits subject to a fixed minimum, though the terms can be varied by the shareholders. Funds of one company cannot be utilized in another and the managing agents cannot carry on any competitive business on their own account. Loans to them are forbidden except on current account. The number of their nominees of the board of directors is fixed at one-third.

This is undoubtedly a great improvement. But the managing agents can still act on behalf of several similar concerns and their interest in all may not coincide. As purchasers of the goods of and sellers to another company, they can still make illicit gains.

The fact is that no law can safeguard the interest of individuals when they themselves are not vigilant enough. Our shareholders are ignorant, indifferent and lack corporate spirit and that vigilance which alone can ensure success to a democratic institution like the joint stock organization.

14. Means and Methods of Industrial Advance. We entered into the industrial race a little less than a century ago and yet there is little indication of the increased tempo of industrialization. Industrialization in India has been very tardy, uneven and unbalanced. Some of our highly developed industries have been till recently in a chaotic and depressed state. The following measures may be suggested to accelerate industrial development in the country :—

(1) *Protection as a means of Industrial Development.* One of the common means adopted for the development of industries is the protective tariff. American industry developed under the shelter of high tariff walls and so did the German and the Japanese. We adopted the policy of discriminating protection in 1922 but a reorientation of that policy is essential to enable the country to reach the goal at the desirable speed. We discuss this policy in Chapter on Fiscal Policy.

(2) *Scientific Management.* It is necessary that our industrialists, on their part, give up the methods of 'trial and error' and adopt scientific ways. The principles of scientific management, as the term is now understood, are applied to the location and organization of factories and offices, to the selection, training and organization of the personnel, to the utilization of the best possible methods and equipment so as to achieve the maximum possible efficiency of every part of the industrial machine at the lowest cost possible.

(3) *Rationalization*[1]. The term rationalization is generally applied to the reorganization of industry. It involves amalgamation, integration and modernization with the object of eliminating waste of every kind, particularly waste of material, waste of labour and waste of mechanical power. In a rationalized industry, the most efficient and the best located works are extended and further improved. It seeks to bring the isolated, uncoordinated, self-controlled and self-contained units in the industry to the path of co-operation in the interest of the industry as a whole. The industrialists are expected to cultivate a new spirit and a fresh vision, so that a new sense of responsibility and public service emerges. Such a movement was very wide spread in the inter-war period in Germany, Japan, England and America. It has been called a 'New Industrial Revolution.'

In India only the cement industry presents a rudimentary form of rationalization. Some of our major industries are in a chaotic condition. In each industry there exists a multiplicity of units, highly individualistic in outlook and unwilling to co-operate in any policy beneficial to the entire industry. If order is to be evolved out of chaos prevailing in our industries, the industries must rationalize with coercive State action if necessary.

(4) *Industrial Planning.* Above all, we need purposeful planning of the entire industrial fields of the world. Only a revolutionary economic policy and a radical reorganization of industry can bring out what India is capable of.

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[1] A number of interesting definitions of the term rationalization will be found in Urwick—Meaning of Rationalization, 1929, Appendix B, pp. 150-57.

Planned economy has been defined as a scheme of economic organisation in which individual and separate plants, enterprises and industries are treated as co-ordinate units of one single system for the purpose of utilizing all available resources to achieve the maximum satisfaction of the people's needs within a given time.[1] What scientific management does for a particular unit of industry and rationalization for all the units in the industry, industrial planning should do for all the industries put together.

We are living in a world which is technically, politically and economically different from what it ever was. Economic equilibria cannot be attained by the automatic functioning of the demand-and supply factors, for free and unplanned activities of a multitude of individuals having an imperfect knowledge of each other are bound to produce disequilibria. As Sir William Beveridge remarks, "it is no more likely that the individualistic growth of many small separate businesses will produce an industry laid out on the lines of maximum overall efficiency, than it is likely that the disorderly, uncontrolled activities of innumerable small property owners and builders will produce a planned town without needless corners, duplicate streets and traffic congestions."[2] We must not permit each industry to be a law unto itself and we must subject them to a common control.

It is not, however, proposed that private ownership and a reasonable private control should disappear and that the State should take over the management of industry. But under the planned economic system, the State control, regulation and supervision will have to be much more close and far-reaching to ensure the all-round development of industries. We must, on the one hand, steer clear of uncontrolled and unco-ordinated capitalism with its production stimulated to the extreme by its motive force of unhampered individual interest but with its hopelessly inefficient system of distribution and, on the other, of socialism with its distributive justice but production handicapped by the lack of individual initiative and enterprise.

The National Planning Committee which was appointed several years back under Pandit Nehru's presidentship has now submitted reports by its various sub-committees. These committees have done a good deal of exploratory work. It is now time to evolve a practical plan and create machinery for executing it. We discuss some plans in the Chapter on Post-war Reconstruction.

(5) *Some Other Aids.* The chief handicaps under which our industries are labouring are the inadequacy of capital and credit facilities, lack of enterprise and industrial experience, inadequate knowledge of our resources, lack of organized co-operative effort, the absence of driving and directing force from the State. All these problems must be carefully studied and boldly tackled.

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[1] Lewis Lorwin quoted by George Frederick in his 'Readings in Economic Planning,' p. 135.

[2] Vide Allen—British Industries and their Organisation, 1933, p. 297.

We must turn to the improvement of the main requisites of industrial development, *viz.*, men, money, material, market, motive power, etc. Out of our human material we must produce, through scientific training and technical and general education, captains of industry, efficient managers and highly skilled, healthy, resourceful, intelligent and responsible workers.

Capital resources of the country must be effectively mobilized by means of an efficient system of banking.

The quality and quantity of our raw materials must be improved through the development of agriculture on modern scientific lines.

Our markets must be reserved for our own goods and marketing organization must be improved and made more efficient. Further, the hydro-electric resources of the country should be fully tapped so that energy at cheap rates is made available to our industries.

Improvement of the means of communication and transportation, sympathetic stores purchases and railway rates policy, provision of industrial education and research, collection and dissemination of industrial intelligence and suitable machinery for exploring industrial possibilities and doing the necessary preliminary prospecting work, are some of the other essentials which need careful attention.

In all these things the State has to do a good deal. We must, therefore, now turn to the role that the State can play in the industrial development of the country.

15. State and Industry.—A brief survey of the development of the State policy in India towards industries may not be out of place. We have already seen that Indian Princes in the past had actively interested themselves in the fostering of industries. The East India Company, too, in the beginning, actuated by commercial motives, stimulated and encouraged the development of certain manufactures. But pressure from England brought about a change in their policy and they began to take more interest in the growth and export of raw materials, and sometimes even positively discouraged the manufacturing of articles in India.

When the Government of India changed from the Company to the Crown it did not involve any great change in the policy of the State towards industry. The Indian Government and the individual Indian administrators seemed to be strongly in the grip of the *laissez-faire* doctrine. According to this doctrine, the State must "stand out of the sunshine, its chief function being to keep the arena clear for competition. To regulate industry was pernicious, to assist it was futile and to participate in it was waste of public money." This policy, in the main, continued till the outbreak of World War I.

But certain provincial Governments, notably the Madras Government, on their own initiative adopted a bit forward policy. The first Department of Industries in an Indian province was established in Madras in 1906. Sir Alfred Chatterton, in the employ of the Madras Government, took an active interest in the development of aluminium and leather tanning industries. But Lord Morley in a dispatch in 1910 threw cold water over these activities and considerably damped this enthusiasm. He laid it down that the Government was not to go beyond imparting knowledge in improved methods as revealed by science and European practice. It was not the business of the Government, according to him, to demonstrate the commercial possibilities of such methods. Lord Crew, his successor, was prepared to modify this policy a little, but the Government could not recover from the previous set-back

The outbreak of World War I, however, brought about a change in this policy. To develop Indian manufactures for the successful prosecution of the war became imperative. The Indian Industrial Commission was appointed in 1916 which carried on a comprehensive survey of Indian resources and industries and it recommended that the Government should play an active part in the development of industries. The Indian Munition Board was set up in 1917 whose activities made quite a valuable contribution to the development of Indian industries. By bringing to the notice of Indian manufacturers the new opportunities created by the war, it led to the development of several new branches in Indian industry. Besides, the Government, during the war, undertook considerable manufacturing activity on its own account.

After World War I, the Government came to play a more active part in the industrial sphere. The Montague-Chelmsford report laid down "that the Government must admit and shoulder its responsibility for furthering industrial development of the country." The Indian Stores Purchase Department was created in 1921. As recommended by the Fiscal Commission, the Government became definitely committed to the policy of protection for helping Indian industries.

16. The New Industrial Policy. The new industrial policy of the Government of India was announced on April 6, 1948, in the Dominion Parliament by Dr. Syama Prasad Mookerjee, Minister for Industry and Supply. The main points in this policy are :—

(*a*) The Government of India consider that labour's share of profits should be on a sliding scale, normally varying with production. They propose to establish machinery to advise on fair wages, fair return for capital and better conditions of labour.

(*b*) Industries have been roughly divided into four categories :—

(*i*) Exclusive Government monopoly : the manufacture of arms and ammunition, the production and control of atomic energy and the ownership and management of railway transport.

(*ii*) Government-controlled sphere where the State may seek the co-operation of private enterprise : *e.g.*, coal, iron and steel, air-craft manufacture, ship-building, manufacture of telephone, telegraph and wireless apparatus, excluding radio-receiving sets and mineral oils. The existing undertakings in these fields will be allowed to develop for a period of ten years. Management of State enterprises will be generally through public corporations. In pursuance of this policy the Government proposes to take up five big projects costing Rs. 200-300 crores, *viz.*, a machine-tool factory, a cable-making factory, a radio apparatus and radar-making factory, a steel factory and one connected with industrial machine manufacturing industry.

(*iii*) Subject to State regulation and control : Salt, automobiles and tractors, prime movers, electric engineering machine tools, heavy chemicals and fertilizers and pharmaceuticals and drugs, electro-chemical industries, non-ferrous metal, rubber manufactures, power and industrial alcohol, cotton and woollen textiles, cement, sugar, paper, newsprint, air and sea transport, minerals and industries related to defence.

(*iv*) Sphere of private enterprise subject to the general control of the State. Industries in this category have not been mentioned in the policy statement.

(*c*) As regards foreign capital as a rule the major interest in ownership and effective control will be in Indian hands but power will be taken to deal with exceptional cases In all cases, however, the training of suitable Indian personnel for the purpose of eventually replacing foreign experts will be insisted upon.

(*d*) As for the cottage and small-scale industries' the Government recognize that they have a very important role in national economy, offering as they do, scope for individual, village or co-operative enterprise, and means for the rehabilitation of displaced persons. These industries are particularly suited for the better utilization of local resources and for the achievement of local self-sufficiency in respect of certain types of essential consumer goods. The development of these industries falls in the provincial sphere. But the Central Government will undertake to investigate how far and in what manner these industries can be co-ordinated and integrated with large-scale industries *e. g.*, how the textile mill industry can be made complementary to, rather than competitive with, the handloom industry.

(*e*) To improve industrial housing, a scheme for the construction of one million workers' houses in ten years is under contemplation.

(*f*) The tariff policy of the Government will be designed to prevent unfair foreign competition and to promote the utilization of India's rescurces without imposing unjustifiable burden on the consumer.

(*g*) The system of taxation will be reviewed and readjusted where necessary to encourage saving and productive investment and to prevent undue concentration of wealth in the hands of a small section of the population. In October, 1948, the Government announced these concessions to industry: (*i*) Liberalizing of depreciation allowances; (*ii*) exemption from income-tax of profits of new industries for 5 years up to a limit of 6% on capital; (*iii*) reduction of import duty on plant and machinery from 10 to 5%; (*iv*) Reduction in export duty on cloth from 25 to 10%; and (*v*) abolition of import duty on industrial raw materials.

It is recognized that the State must play a progressive role in the development of industries, but ability to achieve the main objectives should determine the immediate extent of responsibility and the limits to private enterprise. At present the resources of the State may not permit it to function forthwith in industry as widely as may be desirable. To remedy the situation, among other things, the Government is considering steps to create a body of men trained in business methods and management. In the meantime the State will expand its present activities wherever it is already operating and by concentrating in new units of production in other fields, rather than on acquiring and running existing units. Private enterprise, properly directed and regulated, has a valuable role to play.

In order to execute this new industrial policy numerous bodies will be set up including a National Planning Commission, a Cottage Industries Board, a Cottage and Small-scale Industries Directorate and Housing Board. The industrial policy statement has not caused much surprise nor has it raised extravagant hopes. The Government seems to have taken a middle course avoiding the two extremes of nationalization, on the one hand, and the pampering of the capitalists, on the other. The Government policy seems to be more realistic and is aimed at increasing production which is the crying need at present. This statement of Government's industrial policy does not, however, seem to have allayed the fears of the industrialists regarding nationalization, and the Prime Minister, the Deputy Prime Minister and the Industries Minister had again and again to emphasize that there was no intention of nationalizing the industries. It was simply not feasible. The Government seems to have bitten more than it could chew.

In order to place industry on a sound footing, the Government introduced in April, 1949, a bill providing for the "development, regulation and control" by the Central Government. The Bill seeks to confer very wide powers on the Government under which it can take over any industry or start any one, at the same time making it possible for private enterprise to develop industries in accordance with a Centrally-regulated policy. It provides for registration of existing enterprises and licensing of the new ones. The licence may impose conditions regarding location and minimum standards in respect of size, equipment and technique. According to the rules to be framed under the Act, the Government can ask the industries to take steps to stimulate development, regulate productions, use particular raw materials, fix standards of production, prohibit practices likely to reduce production, maintain accounts in a certain manner, submit returns, etc. These are wide powers indeed and will have to be used sparingly lest private enterprise should be scared away.

17. **The work of the Provincial Governments in relation to Industry.** In each province a "Department of Industries" has been established to foster industrial development in its respective province. They provide technical training, and arrange for industrial research not only in connection with the existing industries but also those which can be brought into existence. They also lend financial assistance to deserving cases. They try to improve the marketing organization, and to act as bureaux of industrial information. In their effort to improve the economic conditions of the province they extend the necessary co operation to other beneficent departments. Their chief functions are the following :—

(i) *Industrial Education.* Apart from the fact that only a microscopic minority of the people in India is literate and that the educational facilities are inadequate, the system of education in India is notoriously too literary and academic and entirely unrelated to real life If the Indian workers are unorganized, unreliable, inefficient and wholly lacking in ambition, it is the lack of education or faulty system of education which is mainly responsible. The Indian Industrial Commission recommended the establishment of craft schools, training of foremen in the works and in some cases attaching technical schools with workshops, giving financial aid to the employers who provided education for their employees and starting primary schools for artisans with an industrial bias. Recently a committee with Dr Zakir Hussain as its president, appointed by the Wardha Education Conference held in 1937, recommended the imparting of instruction through a basic craft and thus sought to rectify the too academic character of our education. Messrs. Abbot and Wood, two educational experts from England, who visited India in 1936, emphasized the importance of the training of supervisory grade of workers. They also recommended co-operation between trade and industry on the one hand and educational institutions on the other.

Now in every province technical institutions have been established, such as theHosiery Institute at Ludhiana, East Punjab, the Silk Institute at Bhagalpur (Bihar) and the Cottage Industries been established Institute at Gulzaribagh. In East Punjab a technical school has in almost every district or industrial centre, where besides general technical education, specialized training is given in a certain craft which is of importance to that locality. Some big industrial concerns like the Tata Iron & Steel Company, Jamshedpur, have set up technical institutes of their own.

But facilities for technical education provided in India cannot be regarded as adequate either as regards quantity or quality. There is very little correlation between requirements of industry and the type of training imparted. People who are experts in the factory work lack education and the young men trained in the technical institutions are found wanting when they enter a factory. We want technical schools for the training of ordinary workers, higher technical education for the training of foremen, and commercial colleges for the training of managers.

(ii) *Industrial Research.* The importance of research for the development of Indian industries can hardly be exaggerated. We have made some belated attempts in this direction. Each major industry, as we have already noticed, has its separate research organization. Research laboratories have also been set up by the Departments of Industries in all provinces. As the result of deliberations of the Fifth Industries Conference, a central organization, the Industrial Research Bureau, was created in 1935 with an advisory body called the Industrial Research Council. It supplies industrial information, co-operates with the industries in research work and publishes a bulletin giving information useful to the industries. In order to meet the requirements of the late war a speedy development of all potential industrial resources of India was felt to be necessary. This led to the appointment of a new body, the Board of Scientific and Industrial Research, with which was associated the representatives of the major Indian industries. It has already done much useful work and suggested several new lines of manufacture, *e.g.*, chemicals, oils, etc. But our expenditure on industrial research is too little to meet adequately the requirements of industry. In America private industrialists alone spend $ 300,000,000 on research. The total cost of research in America is said to amount to 1/6th of the total national income.

(iii) *Industrial Intelligence.* Besides the Department of Commercial Intelligence and Statistics under the Central Government, each provincial Department of Industries maintains an intelligence branch for the collection and dissemination of industrial intelligence and information. Anybody who wants to start an industry can seek the assistance of this organization. But if it is to be of any use, the information must be complete and up to date. Only a body of experts which continuously functions can supply such information. The industrialists, in general, do not feel that the Department is properly equipped for the purpose.

(iv) *Financial and other aids like holding of Exhibitions and opening of Emporiums and Depots, etc.* We have already seen that State Aid to Industries Acts have been passed in all the provinces, and financial aid is given in the form of loans or subsidies. We have also seen that such measures have not produced good results.

Utility of depots and exhibitions cannot be denied, but this is not all that the industries need.

No doubt, the Provincial Departments have been doing very useful work, but it does not go far enough. They have merely confined themselves to the aiding of cottage industries. They also suffer from certain limitations inasmuch as policies relating to railway rates, currency and exchange and tariffs are beyond their control. Any adverse decision on these matters can negative all efforts of provincial Governments.

The Central Government also, in recent years, have been giving increasing attention to the development of Indian industries, especially the cottage industries. We have already seen how since 1935 they have been giving annual recurring grants for the development of handloom, silk and woollen cottage industries Their contribution to industrial research has also been mentioned. Other measures they took related to the setting up of Indian Sugar Committee, Indian Cotton Committee, Indian Jute Committee, Coal Grading Board, passing of Cotton Transport Act, Indian Tea Cess Act, Labour Laws, reduction in railway freights, etc.

(v) *The proper role of State in India.* The State in India must pursue a policy of activism and discard passivity. Our industrial structure is defective in several parts The State must create conditions congenial enough for the industries to thrive so that the economic resources of the country are best made use of. The Government must further be equipped with personnel representing the best industrial knowledge and experience available in the country so that it can act as a competent adviser to the industrialists. We must devise a machinery which can work expeditiously, effectively but sympathetically. People in India by tradition always look to the Government to guide and direct their activities. The Government is the pivot for carrying out the various measures that we have suggested for the industrial advance of our country. So long as the Government does not take the lead and assure a fair field for industrial ventures by safeguarding them from the menace of foreign competition, confidence in the industrial future will not be created and the necessary conditions for rapid industrial development we are capable of and which we so badly need, will be lacking.

18. The role of the State in some other countries. There is a growing conviction in every advanced country that voluntary action on the part of individuals has miserably failed to promote the healthy economic development of the country and that some positive action on the part of the State is called for.

Japan offers the best illustration of the paternal attitude of the State in fostering industrial development of the country. The spectacular industrial development of Japan is chiefly due to the initiative and fostering care of the State. "There are few modern industries today that do not owe their existence to Government initiative."[1]

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[1] Orchard—Japan's Economic Position, 1930, p. 90.

The Government in Japan did a lot of pioneering work and later changed its role of an *entrepreneur* to one of the financier. It established and maintained model factories and sometimes participated in the financing of business enterprises. Other measures taken by it included imposition of protective duties, granting of subsidies, sending students for technical training abroad, engaging foreign experts and specialists, negotiating favourable commercial treaties and sending round experts to advise small factories. It has been truly remarked that "in Japan.........modern industrialization had the State as its god-father, if not its progenitor."[1]

Japan is not the only country where the Government has taken interest in fostering industrial development. In Germany cartelization was officially sponsored, the State, as in the case of coal and potash, becoming a partner in private enterprise. There was in Hitler's Germany a strong tendency to replace automaticism of the free market by the State regulation. About the Nazi industrial machine, it has been remarked that it "creaks and groans but nevertheless moves with surprising rapidity : nearly everybody grumbles, but everybody conforms."[2]

In England the home of *laissez faire,* there has also been a swing in the economic policy of the State. She no longer adheres to the traditional policy of *laissez faire.* The mandate given to the Import Advisory Committee seems to establish a principle of an almost unlimited official intervention. Pressure has been exerted to effect rationalization in the iron and steel industry, sugar beet, cotton spinning, coal industries, etc. Industries in connection with synthetic dyestuffs, beet sugar, coal, oil and production and exhibition of cinematograph films were brought into existence by conscious State action.

The New Deal in America introduced extensive Governmental interference in the economic sphere.

Suggestions for Further Reading.

1. Reports of the Central and Provincial Banking Enquiry Committees, 1930-31.
2. Report of External Capital Committee.
3. Report of Industrial Commission, 1918.
4. Dr. Jeidels—Memorandum of Industrial Finance.
5. Report of the Textile Labour Committee, 1938.
6. Basu—Industrial Finance, 1928.
7. Das—Banking and Industrial Finance in India.
8. Clow—State and Industry.
9. Qureshi—State and Economic Life.
10. Samant and Mulky—Organization and Finance of Industry in India.
11. Sen—Economic Reconstruction of India.
12. Visvesvaraya—Industrialising India.
13. N.P.C.—Industrial Finance.
14. Basu, S. K.—Financing of Post-war Industry.

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[1] Hubbard—Eastern Industrialization and its Effects on the West. [illegible], p. 35.

CHAPTER XX

INDUSTRIAL LABOUR

1. Growing Importance of Industrial Labour in India. The rise of the wage earning class in India has been very slow. Predominance of agriculture and attachment to land, the existence of joint-family system and the absence of successful industrial careers are some of the causes which prevented the rise of the industrial labour in India. Demand for Indian labour for Colonies and for plantations did raise some labour problems. But it was after the first World War that the Indian labour became conscious of its strength and rights. The influence of the International Labour Organisation also tended in the same direction. The appointment of the Royal Commission on Labour and the advent of Congress Ministries with a definite bias for labour welfare have aroused a general interest in labour in recent years. The Labour Commission gave impetus to labour legislation and brought the labour problems to the forefront. Industrial labour in India is now a force to be reckoned with.

2. Sources of Labour Supply and Methods of Recruitment. There was a time when there was a chronic shortage of labour in India. In view of the large and increasing population of India shortage was anomalous. This scarcity was due to lack of training facilities, absence of suitable recruiting agencies, lack of knowledge, undeveloped means of communication, low wages, high cost of living, bad housing conditions, trying conditions in the factories and prevalence of frequent epidemics. Although conditions in these respects are not even now completely satisfactory, yet a marked improvement has been made, with the result that no industry now experiences any shortage.

With the exception of Bombay, Calcutta, and Jamshedpur, all other industrial centres draw their labour supply from the surrounding areas, *e g.*, at Ahmedabad 65 per cent of the labour supply may be called local. Kanpur also depends for labour supply on its immediate neighbourhood. For Bombay the recruiting areas are in the Ratnagiri District, and the nearby Deccan districts. Most of the labour supply for Calcutta hails from outside a radius of 250 miles, especially from Bihar, the C. P., the U.P., and Madras. Jamshedpur draws its labour supply from all over India.

Recruitment, till recently, was done through intermediaries called jobbers, *mukaddams, sirdars or mistries.* Although primarily a chargeman entrusted with the work of supervising labour, the jobber occupies a position of much greater importance. For technical training, transfer to a better job, promotion and aid in private and domestic matters, the worker comes to lean on him and is often completely at his mercy. Virtually he has been the ear and the voice of the mill manager. But the position is now somewhat changed. Larger and more progressive mills have now appointed labour officers to look after labour and have begun direct recruitment, though in the majority of the concerns the old method is still prevalent. Instead of being recruited in the village, labour is now recruited at the factory gate. But in view of the intermittent and fluctuating character of labour force, it is difficult to establish a permanent and living contact between the management and labour. Therefore the jobbers still continue to wield an influence which cannot be called inconsiderable and his grip over the worker continues to be strong.

3. Labour Efficiency in India. The human factor is very important in industry, as in any other sphere of economic life. Industrial progress depends, in a very large measure, on the efficiency of industrial labour. In this respect India does not seem to be happily placed.

Attempts have been made by some to represent relative inefficiency of Indian labour in terms of output or number of hands employed per unit of machinery. It is pointed out that an operative looks after 240 spindles in Japan, 540 to 600 in England and 1,120 in the U.S.A. but only 180 in India. Again, a weaver in India, it is said, attends to two looms, in U. K., to 4—6 and in the U.S.A. 9. Sir Alexander McRobert opined before the Industrial Commission that an English worker was 3·5 or even four times as efficient as an Indian worker. According to Sir Clement Simpson's calculations, 2·66 workers in a cotton spinning and weaving mill in India are equivalent to one operative in Lancashire.

But such statements do not reflect on any innate inferiority of the Indian worker. More workers are employed in India per unit of machinery, because labour is cheap and machinery is dear and less output per worker is often due to the use of bad material, out-of-date machinery, bad control and defective management. Therefore, we cannot subscribe to these pseudo mathematical representations of the relative efficiency or inefficiency of Indian labour. But it cannot be denied at the same time that even after making allowance for all factors, the fact remains that Indian labour is less efficient as compared with, say, British or Japanese labour. Therefore in India while wages are low, labour is dear.

4. Indian Labour is Less Efficient because of conditions. There are several factors, for most of which the worker himself can hardly be blamed, which are responsible for lower efficiency of Indian labour. Apart from the enervating Indian climate, poor physique, illiteracy and lack of technical training and less disciplined character, the following are the main factors which lower the efficiency of Indian factory worker :—

(1) *Migratory Character.* Unlike in the West, where factory population is permanent, Indian labourers are mostly migrants

from the villages. They leave the villages to escape from destitution and from numerous social disabilities, or penalties for offences against the village moral code, or from the money-lender. It may also be that they leave their villages to improve their economic condition with a view to purchasing land or other property. The excessive pressure on land, the decay of village crafts and better opportunities in the city drive the people from the villages to the factory areas.

But they do not permanently sever their connections with the village, because, as the Labour Commission remarks, the driving force comes from one end of the channel only, *i.e.*, the village end. "They are pushed and not pulled to the city." Strange and novel environments of the city, its insanitary conditions, high cost of living and lack of employment for the whole family compel them to leave their families in the village to which they desire to return sooner or later.

The migratory character affects efficiency. The worker does not feel quite at home in the artificial city life. The strange environments subject him to severe strain, and he becomes a victim to sickness and disease. The fatigued body and over-stimulated mind find dangerous relief in alcohol and gambling. Discipline, long hours of work in a factory to which he is not used, home-sickness and mental depression—all adversely affect his capacity for, and interest in, his work.

There is, however, the other side too. The villager brings to the factory better physique, and a combination of rural and urban life widens his outlook. The periodical visits to the village constitute a nice and cheap holiday which improves his health. Besides, he becomes an instrument for the diffusion of knowledge in the village and thus quickens the mind and enlarges the outlook of the people of his village. The village offers a safe and comfortable asylum in sickness, strikes and lock-outs, in old age and in maternity. For all these reasons the connection with the village, according to the Labour Commission, is an asset of incalculable value. On the whole, therefore, the migratory character of Indian labour is not a cause of his relative inefficiency.

(2) *Low Wages.* Efficiency of labour depends upon nourishing diet, proper housing and other amenities. But the wages in India are too low to purchase these. For the paltry sum that a worker in India gets he cannot be expected to put in his best and his efficiency must be low.

(3) *Low Standard of Living.* It follows from low wages that the standard of living of the Indian worker must be very low. Inadequate and unbalanced diet, a dirty hovel to live in, shabby and insufficient clothing to cover his limbs, and complete absence of expenditure on medical aid, education and recreation must affect his health and efficiency. The Indian worker's diet compares unfavourably even with that of the prisoners. A large part of

the worker's monthly income is swallowed up by debt and travelling expenses to and from home and a part is squandered in gambling and drink. With such a meagre income it is futile to expect of a worker to maintain himself in reasonable standard. No wonder that his efficiency is low.

(4) *Long Hours and Trying Factory Conditions.* A worker who has to work for 10-11 hours every day in the hot summer days or in severe winter in a congested and ill-ventilated factory under an unsympathetic manager cannot put in his best. He cannot be blamed for loitering if he is compelled to rest and look round a little to get some relief which he so badly needs. Factory environments represent a marked contrast to his native environments. His efficiency must naturally suffer.

(5) *Unsatisfactory Housing.* A further cause of industrial inefficiency is the appalling condition in which the workers are housed. Insufficient accommodation, the dark and stuffy interior of the tenements and their squalid surroundings are the chief features of a working class colony. Single-room tenements seem to be the rule and most of them are not fit for human habitation. They are said to be "cold in winter, hot in summer and wet in rains."

Many jute mills in Calcutta and cotton mills in Bombay provide quarters for a fair proportion of their employees, but majority of the textile workers are still unsatisfactorily housed. In other industries conditions are a little better. Most of the sugar mill employees are lodged in mill quarters in open surroundings. Coal mines in Jharia and Bihar have provided good sanitary quarters of approved designs. The housing arrangements at Jamshedpur by the Tatas and at Nagpur by the Empress Mills are very good. The former has built a garden city of 8,000 houses, and the latter has laid out a model village with all the necessary amenities In both cases the employees are encouraged by loans given on liberal terms repayable in easy instalments to build houses for themselves. Further, slum clearance programmes have been undertaken by the municipalities in Calcutta, Bombay, Madras and Kanpur. The Bombay Government has completed nearly one-third of its gigantic programme of building 625 chawls with 50,000 tenements. Several provincial Governments have under their consideration housing schemes to clear the slums.

But it is a big problem, and no early and easy solution may be expected. Reports of Health Departments in the principal industrial areas still sadly reflect on the dirt, dust and congestion of the workers' colonies. In these circumstances Indian labourer must continue to show a lower degree of efficiency. The problem of improved housing is now receiving the attention of the Government of India who have set up a committee to examine the whole subject.

(6) *Absenteeism.* There is a high turnover of labour in Indian factories. It is considered that a worker availed himself of 2-3 days' holiday in a month and 3-7 weeks in a year. It necessitates the

employment of reserve with additional costs to the concern. In recent years political and communal disturbances and strikes have increased absenteeism. Receipt of a big bonus would send large numbers of workers to villages to enjoy a spell of idleness or to escape from the discomforts of the city.

(7) *Indebtedness.* Being in debt has an adverse psychological effect on the worker and impairs efficiency. The usual rate of interest varies from 75 to 150%. Once in debt, therefore, it is impossible for a worker to extricate himself. An inquiry in Madras showed that of 800 workers all but 13 were in debt on an average of about 6 months' wages.[1]

Other factors responsible for relative inefficiency of Indian labour are the defective and inexperienced management, use of bad machinery and materials and weak labour organization. In the words of Dr. Vera Anstey : "When it is realized that the labourer who is obliged to live in such uncongenial, unhealthy and soul-destroying surroundings, is in any case illiterate, superstitious and untrained, is it to be expected—entirely without prejudice to his mental abilities—that at any wage, however low, his services can be really cheap?[2]

In order to improve efficiency, it will be necessary to adopt a comprehensive programme of labour uplift. Greater diffusion of technical and general education, raising of wages to a reasonable level, reduction of hours, improved housing and other improvements in working conditions are bound to affect favourably the efficiency of the workers. But, above all, a radical change in our ideals is necessary. So long as a worker suffers from a sense of insecurity and fear of unemployment, and so long as he feels that he is working for others, his efficiency cannot rise to the highest pitch possible and he will try to do the least and get the most out of his work. He must, on the other hand, be made to feel that his work fulfils a social purpose and he must be guaranteed complete security from want and fear. Thus alone can the worker develop the right morale.

5. **Labour Welfare Work.** In the past a few enlightened employers, missionary societies like the Y.M.C.A. and social organizations like Bombay Social Service League, Seva Sadan Society, etc., interested themselves in promoting labour welfare. Labour organizations, too, have been taking keen interest now in this direction. It is now recognized that labour welfare work is not to be carried on purely on humanitarian grounds but also for economic reasons, inasmuch as it has a direct bearing on labour efficiency. It also gives labour an added sense of dignity and responsibility. Since the advent of provincial autonomy the Governments in provinces became more actively interested in this type of work. Welfare centres have been established in the important industrial towns of

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[1] Shiva Rao—The Industrial Worker in India, 1939, pp. 1331 35.

[2] Vera Anstey—Economic Development of India, 1936, p. 230.

the country like Bombay, Calcutta, Madras, Kanpur, Nagpur, etc. The Central Government has also appointed a General Adviser on welfare work.

Among the labour welfare items may be mentioned educational classes, circulating libraries, indoor and outdoor recreational activities like games, sports, dramatic performances, lantern and other lectures, cinema shows, radios, nursery schools, medical aid, maternity arrangements, etc. An industrial training workshop has been established at Ahmedabad by the Government of Bombay. The work done by the Textile Labour Association, Ahmedabad, especially in the medical and educational spheres, the Tata Iron and Steel Company, Jamshedpur, the Empress Mills, Nagpur, the Buckingham and Carnatic Mills, Binny Mills, Delhi Cloth Mills, etc., deserve special mention.

6. Labour Legislation. Since the advent of modern industry, the employers were free for a generation to use their labour in any manner they liked unhampered by any factory law. The result was that the hours were inordinately long. Labour, especially women and children, was exploited. The conditions in the factories were inhuman and intolerable. For injuries received in the factory, which the unfenced machinery freely inflicted, the worker did not receive any compensation.

Factory Act (1881). The heart-rending conditions of the workers awakened the sympathies of some public-spirited men in India. The Lancashire manufacturers also pressed for factory legislation in India, because they thought the absence of it placed the Indian manufacturers at an advantage. A Factory Commission was appointed in 1875 which led to the passing of the first Factory Act in 1881. Under this Act the children got a limited protection. But the adult labour continued to suffer. No child was to be employed below the age of seven and the number of hours for them were fixed at nine. There was a provision for four holidays in a month and proper rest intervals. Fencing of dangerous machinery was not provided nor the reporting of accidents. In the absence of proper factory inspection the Act remained almost a dead letter.

Factory Act (1891). The Act naturally did not satisfy the workers or their sympathizers. The adult workers had to work from sunrise to sunset even on Sundays, and the holidays were devoted to the cleaning of machinery. They did not get any time even for meals. Another Factory Commission was appointed in 1890 and, on their recommendations, the second Factory Act was passed in 1891. According to this Act, the minimum age for employment of children was raised to nine, and hours of work for those between the ages of nine and fourteen were reduced to seven. No woman was to work between 8 p.m and 5 a.m. and the maximum number of hours for them were fixed at 11 with an interval of 1½ hours. Other provisions were : half an hour's compulsory rest daily and a weekly holiday. The Act applied to factories employing 50 persons, as against 100 persons in the first Act, and the local

Governments were empowered to apply it by notification even to those employing 20.

Factory Act (1911). For the next 20 years no step forward was taken in the matter of factory legislation. In 1906, the Freer Smith Committee and in 1907 a Factory Commission inquired into the working conditions; and they referred to the evasion of the previous factory laws. This led to the passing of the Factory Act of 1911. Its principal provisions were: 12 hours the maximum limit for men and 6 for children, regulations to ensure safety and health and to make inspection more effective by providing penalties for breaches.

Factory Act (1922). The first World War had awakened among the workers a new consciousness of their importance and solidarity. There was insistent demand for reduction of hours. The Factory Act was amended in 1922.

This Act applied to factories employing 20 persons, prohibited the employment of children under 12 and in two factories on the same day, fixed 6-hour day for those between 12 and 15 years of age, and a half-hour interval after four hours' work. It limited the hours of adult workers to 60 per week and 11 per day. Women were not to work between 7 p.m. and 5-30 a.m. It contained provisions relating to compulsory rest intervals, a weekly holiday, measures for health and safety and for controlling excessive artificial humidification in the interest of worker's health.

Minor amendments were made by the Acts of 1923, 1926 and 1931.

Factory Act (1934). The working of the Factory Acts revealed their shortcomings and the labour leaders and social reformers agitated for bringing the factory legislation in India in line with that in advanced countries. The Royal Commission on Labour was appointed in 1929. It conducted a comprehensive inquiry into the various labour problems of India. A crop of legislative measures resulted from their recommendations. The factory legislation was overhauled by the Indian Factory Act of 1934. According to this Act, no child between 12 and 15 years was to work for more than 5 hours a day and non-adult workers between the ages of 12 and 17 had to produce a certificate of fitness. In the case of adult workers the maximum number of hours was limited to 10 per day or 54 in the week There is a provision for a weekly holiday and a rest interval after 6 hours' continuous work The seasonal factories were permitted to work 11 hours a day or 60 hours per week The factories can be called upon to adopt cooling measures for the comfort of the workers. They have to provide adequate water supply, a shelter for rest, suitable rooms for women and children and adequate first-aid equipment The Act also limits overtime working and provides for extra pay for the overtime put in. There are provisions for the security of factory structure. Limits were imposed on the power of Local Governments in granting exemptions.

The Factories (Amendment) Act, 1944, removed some defects of the Act of 1954 and met some difficulties experienced in its administration. An amended Act passed in March (1946) reduced the weekly hours of work to 54 for seasonal and 48 for perennial factories.

In recent years there has been increasing tendency on the part of provincial Governments to apply the provisions of the factory law, by notification, to all factories employing 11 or more persons by making registration of such factories compulsory.

Factory Act (1948). The Factory Act of 1934 was amended in a comprehensive manner by the passing of the Factory Act of 1948. The Act of 1934 left many vital matters to the rule-making powers of the provincial Governments. All the minimum requirements, particularly relating to health and safety, have now been embodied in the Act itself. There is a provision of a minimum standard of 500 cubic feet of space per worker in the case of new factories, effective arrangements for the supply of wholesome drinking water and the provision of bench rooms for the physical comfort of the workers. A canteen is compulsory for a factory employing 250 workers or more.

There is a provision for compulsory licensing and registration of factories. Previous permission has to be obtained for the construction and extension of any factory and specifications have to be approved.

The daily and quarterly limits of overtime have been fixed and the extent of the annual leave with pay has been raised from 10 days per year to one day for every 20 days of work in the case of an adult and to one day for every 18 days of work in the case of a child.

The scope of the Act has been extended to the acceding States. The distinction between seasonal and perennial factories has been removed.

It provides for employment of welfare officers in factories employing 500 or more workers.

The maximum weekly hours of work have been fixed at 48. No child can be employed in the factory till he has completed his fourteenth year and hours of work for children have been reduced to 4½.

The Act also imposes penalties on workers for breaches of the Act. They can be imprisoned if they wilfully mishandle machinery and fined if they spit except in the spittoons.

7. Legislation for the Mines A separate set of laws was passed to regulate working conditions in the mines.

The first Act, which was passed in 1901, only contained provisions relating to safety and inspection, but was silent about the hours of work.

The Act of 1923 fixed 60 hours per week for workers above ground and 54 for underground workers, but the number of daily hours was not limited which was done by the 1928 Act when a maximum of 12 hours per day was fixed.

As a result of the adoption of Draft Convention in 1931 by the International Labour Conference and recommendations of the Labour Commission, the Indian Mines (Amendment) Act was passed in 1935. It prohibits the employment of any person in mines for more than six days in a week. For the workers above-ground, the maximum number of hours is 54 per week or 10 per day and 9 hours for those underground. No child under 15 years can be employed in a mine. It also provides for the recording of accidents necessitating absence for more than seven days. Women cannot be employed underground. This provision was relaxed for the duration of war in coal-mines due to shortage of coal. Rules framed in 1936, 1937 and 1939 provide for taking strong measures to ensure safety. Mines Boards have been set up with the object of regulating conditions relating to general health of the mine-workers.

A Coal-Mines Labour Welfare Fund Act has been passed which empowers the Central Government to levy a cess on coal from 4 as. to 8 as. per ton. A part of the proceeds has to be spent on workers' housing.

A Bill providing for provident fund for workers in coal-mines was passed in August 1948. The employers are to contribute a sum equal to one anna in the rupee of the basic pay of the workers. A similar contribution is to be made by the workers.

8. Some other Labour Laws. Besides the laws mentioned above, there are several other laws relating to labour of which the following deserve special mention :—

Payment of Wages Act, 1936. Although it applies to railways and factories yet its operation can be extended to tramways, quarries, inland vessels, plantations, etc. The maximum wage-period has been fixed as one month. Concerns employing less than 1,000 persons must pay the wages before the expiry of the seventh day after the last day of the wage-period, and those employing more than 1,000 before the tenth day after the expiry of the wage-period. In case of termination of services, all amounts due must be paid before the expiry of the second working day after such termination. The permissible deductions from pay include fines for damage or loss of goods expressly entrusted to the employee, payment for housing accommodation, recovery of advances or adjustments of over-payments, for income-tax, contributions to provident fund, postal insurance, co-operative dues, for any order of a court of law, etc. No deductions are permitted for damage to material in course of manufacture. The total amount of the fine in the wage period is not to exceed half an anna in the rupee and the amounts realised must be spent on purposes beneficial to the workers.

Workmen's Compensation Act. Up to 1923 an employer could be sued in a court of law under Fatal Accidents Act of 1885 in case of death by accident. But the law was practically a dead letter. The first Compensation Act was passed in that year and it provided for a compensation to be paid to the employee in case the accident occurred during, and in course of employment Amending Acts were passed in 1926, 1929, 1931 and 1933. The amount of compensation in case of a fatal accident depends upon the average monthly wages of the deceased, and, in case of injury, on the monthly wage and the extent of the injury. For those getting less than Rs. 10 p. m. the compensation in case of death is Rs 500, for permanent disablement it is Rs. 700, and for a temporary disablement the wage and a half. When the monthly wage is between Rs. 50 and Rs. 60 the corresponding figures are 1,800, Rs. 2,520 and Rs. 15 p. m. respectively. The amounts of compensation for persons earning over Rs. 200 are Rs. 4,000, Rs. 5,000 and Rs. 30 p. m. respectively. In the case of minors, the compensation for death is Rs. 200, for permanent disability Rs. 1,200, and for temporary disablement half the wage. To safeguard the interests of the dependants all fatal accidents have to be brought to the notice of the Commissioner and the amount of compensation has to be promptly deposited with him when the employer admits the liability, and in case he does not, the dependants are informed accordingly. The Labour Conference held in November 1945, decided to recommend the amendment of the existing legislation and make it more favourable to labour.

Maternity Benefit Legislation. How unsympathetic the Indian legislators were to the cause of women can be gathered from their rejection in 1924 of a Maternity Benefit Bill moved by Mr. N. M. Joshi. After five years, however, the Bombay Government passed the Maternity Benefits Act which was substantially amended in 1935. Such Acts have now been passed in almost all provinces and they apply not only to factories but also to plantations and mines. These Acts provide for compulsory rest and a cash benefit for a certain period before and after child birth, subject to the condition that the employee has put in service for a period varying from six months to a year. During the period of this cash benefit, the employee concerned cannot take up service elsewhere. Maternity benefit is included in the scheme of social insurance prepared by the Government of India recently.

Plantation Labour Laws[1]. The Assam Labour and Emigration Act was passed in 1901. It regulated the recruitment and employment of indentured labour in Assam and subjected the workers to penal contracts. It involved a form of slavery and was, therefore, an eye-sore to all self-respecting Indians. The principle of indentured labour was withdrawn in 1915 and penalties for breach of contract were done away with in 1927. In pursuance of the recommendations of the Royal Commission on Labour, the *Tea Districts Emigrant Labour Act was passed in 1932.* It aims at exercising necessary control over recruitment in the interests of emigrants to tea gardens. The emigrants have the right to be repatriated at the employer's expense after the first three years of service or even within one year if the work is not suited to their personal capacity or for any other sufficient reason. Persons under 16 years unaccompanied by their parents or guardians and a married woman without her husband's consent cannot be recruited.

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[1] For a history of tea plantations labour legislation see S. M. Akhtar's Emigrant Labour to Assam Tea Gardens. 1939.

Legislation Relating to Shop Assistants. It is well known that persons working in shops and other commercial establishments have to work very long hours, sometimes from dawn till late after dusk. While the factory workers attracted the notice of philanthropists, nobody paid any attention to the miserable lot of the shop assistants who did not get any holiday at all or any break for rest or meals Bombay was the first to pass Shops and Establishments Act which came into force in November, 1940. Other provinces followed suit. These Acts provide for a weekly closing and a weekly holiday for employees, the maximum daily hours, the opening and closing hours, remuneration for overtime, holidays with pay, etc. There are, however, certain variations as between one province and another.

Labour Legislation for Transport Workers—Railway Workers. In 1930, Indian Railways (Amendment) Act was passed which gave effect to the International Labour Conventions ratified by the Government of India about a decade ago with respect to railway employees. The Act provides for a weekly rest of full 24 hours and for a 60 hour week. But for the employees whose nature of work is intermittent, the maximum is 84 hours a week. In a case of emergency or exceptional pressure of work exemptions can be granted and in the case of the latter overtime shall be paid.

Maritime Workers. These workers are covered by the Indian Merchants Shipping (Amendment) Act of 1931. According to this Act, young persons below a certain minimum age cannot be employed as trimmers and stokers. An indemnity has to be paid if the ship is lost or foundered. According to Indian Ports Act of 1922 and 1931, children under 12 are not to be employed to handle goods in ports. In case of accidents in loading and unloading of goods, the dockers are protected by the Indian Dock Labourers' Act, 1934.

9. Concluding Remarks on Labour Legislation. Each Ministry under provincial autonomy, in its zeal to improve labour conditions, prepared independently its own programme of labour legislation. It was feared that unco-ordinated labour laws imposing unequal financial burdens on industry and creating different conditions of work in different provinces might weaken the competitive strength of industries in certain provinces as compared with others. Also, that as a result of this unequal treatment and conditions, industries might migrate to areas less suitable for the purpose simply to avoid vigorous labour laws. Uniformity in labour laws is, therefore, very essential.

Although, since the Royal Commission on Labour reported, there has been increased legislative activity in the sphere of industrial labour, yet there are still important gaps which need filling up. The measures enacted so far cover only a small percentage of the total number of workers engaged in the various branches of industry. There is an immense number of small establishments where sweating labour conditions prevail and the workers there have yet no protection of the law.

Besides, while every other country has adopted social security measures and makes provision against sickness, unemployment, old age, and poor relief, there is no such provision in India. England, Canada and U.S.A., have prepared far-reaching social security schemes. Britain's social security plan protecting every citizen, rich or poor, in sickness or health, from cradle to grave is already in operation. The cost is estimated at about £450 million a year. The U.S. scheme has been described as a 'breath-taking' one and the expenses are expected to amount to astronomical figures. It is necessary that some measure, however modest, of social security should also be provided for Indian labour. India has yet to ratify 49 out of 63 conventions adopted by the International Labour Conference.

10. Social Insurance. Almost all the advanced countries have provided for insurance against sickness and unemployment and have made arrangements for old age pensions on a contributory basis, worker, employer and State each contributing. But in India it remains still a far-off ideal in spite of the International Labour Conventions adopted in the matter. The matter relating to sickness insurance did at one time engage the attention of the Government of India. But on account of practical difficulties, administrative and financial, it did not appear to be feasible to introduce any form of social insurance. Sometimes the employers put forward the plea that the industry cannot bear the additional cost which such schemes must involve and that the workers do not like to contribute. There is not much substance in these arguments. Such costs should be considered as essential costs and not "additional" costs and the industry must manage to bear this expense. As for the workers, when they come to understand such schemes, they will be only too glad to contribute. This would help in building up a permanent wage-earning class and diminish absenteeism and turnover. Social insurance is long overdue and whatever difficulties have to be faced must be overcome in the name of humanity. Some large industrial concerns give small pensions for long and faithful service, but they are mostly *ex gratia* and cannot be claimed as a matter of right. Bengal is contemplating the introduction of old-age pensions for jute mill workers It is hoped that such legislation will be undertaken on an all-India basis. The Government of India have now prepared a scheme of social insurance and obtained for the purpose the assistance of two experts from the International Labour Office.

11. Employees' State Insurance. Employees' State Insurance Bill was passed by the Dominion Parliament in its budget session held in 1948. The Bill provides for sickness, maternity and accident benefits for all workers employed in factories. The Government have, however, been empowered to extend the scheme to other establishments, industrial, commercial, agricultural or otherwise.

Before a worker could qualify himself for sickness benefit, it has been provided that contributions should be paid for a period of six months and that in return for such contributions the workers would be entitled to benefits in a subsequent period of six months. The minimum number of weekly contributions that must have been paid by the workers has been fixed at 12.

The number of contributions with regard to maternity benefits is also 12. The maternity benefit per day is 14 annas.

The contributions are payable not only in respect of weeks during which the employee rendered service and received wages but also in respect of weeks during which he was on authorized leave or was unable to work because of a lock-out or legal strike with the further qualification that in respect of legal strike, contribution would be payable only if wages were paid either in part or in full. The employee's contribution would be recovered only from the wages due for the period to which the contribution related.

The workers with a monthly income of Rs. 260 and below would all receive approximately seven-twelfths of their monthly earnings by way of sickness or disablement benefit.

In regard to medical care and attendance to families of insured persons, it has been provided that if a provincial Government was in a position to provide for medical care and treatment not only for the insured worker but also for his family and if the corporation was in a position to bear the extra expenditure, then the benefit would be extended to the family of the insured person also. The maximum period for which sickness benefit is payable has been prescribed as eight weeks in a year. But as soon as circumstances permit the corporation is asked to make use of its powers to extend the period of benefit.

The provincial Governments were expected to contribute about one-third of the cost of providing medical care and treatment. It was expected that the standard of medical care and treatment for insured workers would be such as would cost about Rs. 6 per year as against the *per capita* expenditure today of 6 annas. So far as the Central Government is concerned, it would make a grant equal to two thirds of the administrative expenses for a period of five years.

The scheme will be administered by a corporation to be known as the Employees' State Insurance Corporation with the Labour Minister of the Central Government as the Chairman and the Health Minister as the Vice-Chairman. Both the employees and the employers will have five members each on the Corporation.

As the Labour Minister himself admitted in Parliament, the measure was only a modest beginning in the direction of social insurance. He also disclosed that the Government were working on plans for starting employment insurance and provident fund for the employees. He expressed the hope that it would be possible before long not only to bring a much larger proportion of employees within the scheme but also to enhance the period of the sickness benefit and make provision for medical treatment to families of insured persons.

12. Legal Minimum Wages. It is sometimes argued that increase in wages will be squandered away in drink and other ill-advised expenditure or that it will induce the worker to have some holiday and thus add to the already high degree of absenteeism or that it will be neutralized by increase of population. Further, that a higher scale will be beyond the capacity of the industry to bear so that the country's industries will be beaten in inter-national competition. But these arguments cannot stand even a cursory scrutiny. No doubt a sudden and large increase in earnings may result in some foolish expenditure. But if the higher scale is maintained this folly will be only a passing phase and if the increase is gradual there will be no danger of foolish expenditure at all being indulged in. It will lead to improvement in standard of living and the desire to maintain that standard will keep the population down. It is too late in the day to appeal to exploded theories of population or wages. To say that increase in wages will lead to off-days is to misunderstand the psychology of labour, for it means the satiety point with respect to earnings has already reached which is simply ludicrous. As for the industries' capacity to bear the proper scale of wages, it may be said that if the industry can only survive when labour is exploited, the sooner it goes down the better. To expect the weak shoulders of the workers to prop up such an industry is inhuman and detrimental to the nation at large. An efficient management can surely make several other economies and a temporary difficulty of an industry in the international competition can be overcome by other means of protection and aid. But it should never look to sweating of labour as a means of survival All objections to the increase of wages must be brushed aside and the industrialists must be brought round to see the sense and justice of increasing wages. Besides an adequate and fair wage, the workers should be granted a production bonus monthly to stimulate production and also an attendance bonus yearly to reduce absenteeism Only then the quality of the human factor will improve and this is indispensable to any real and substantial progress in industry. Not much can be accomplished by weaklings invalids and illiterates

It is recognized in all advanced countries that it is desirable to maintain certain minimum standards of life Thus minimum wage-fixing machinery has been set up to provide for a minimum wage, particularly in "sweated" trades where the workers are hopelessly unorganized and are, therefore, in a helpless condition. The International Labour Conference held in 1928 adopted a convention in this connection. The Royal Commission on Labour in India also suggested an investigation into the feasibility of setting up a minimum wage-fixing machinery.

This overdue reform has now been effected and the Minimum Wages Act has been passed, according to which minimum wages will be fixed in certain selected industries and trades. The administrative machinery for the purpose is being set up.

13. Wages and Cost of Living. The standard of living of the Indian worker has never been consistent with human dignity Even the prisoners get a better diet, and cattle in the West are better housed. The Indian worker's diet is meagre and unbalanced, clothing shabby and insufficient and his house a mere hovel. Of relaxation and recreation he cannot even dream. But for illiteracy and ignorance, the limit of toleration would have reached long ago. If Indians had not been fatalists, there would have been a revolution by this time. At the International Labour Conference in 1929, Mr. N. M. Joshi observed, "Just and humane conditions are still in India a far-off deal, and if evolution is too slow, the attractions of revolution are great." We may add our own warning in the words of a poet :

O masters, lords and rulers in all lands,
How will the future reckon with this Man ?
How answer his brute question in that hour,
When whirlwinds of rebellion shake all shores ?
When the dumb terror shall rise to judge the world,
After the silence of the centuries ?

EDWIN MARKHAM.

Since 1939 the earnings of workers have gone up, but have the real earnings gone up ? Average earnings per head have risen from Rs. 287·5 in 1939 to Rs. 728·4 in 1948. But the cost-of-living index has gone up to 292 (1939=100). The real average earnings have therefore gone down from Rs. 287·5 in 1939 to 249·5 in 1948[1] The worker is thus worse off. Something must be done to improve his lot and secure for him a larger share in the national income.

14 Industrial Relations. For industrial progress and prosperity maintenance of peaceful relations between labour and capital is of the first importance. Industrial conflict means a loss, both to the employers and the employees even when the latter score a victory. It is also harmful to the community in general. Therefore, every effort is made in advanced countries to maintain industrial peace.

For a long time in India there was no industrial unrest Although modern industry began to grow in India in about the middle of the last century, yet for nearly half a century no dispute of importance took place. Whenever a dispute did take place, the employers came out invariably victorious. They were all-powerful and they could easily import 'black legs' in case the workers 'downed' tools. The workers, on the other hand, were hopelessly unorganized and absolutely inarticulate. The use of strike as a weapon to fight the capitalists was yet unknown. It was only in the present century that the workers became class-conscious. But even then, up to 1919 the disputes between labour and capital were sporadic.

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[1] Eastern Economist, Delhi, Dec. 31, 1948.

During World War I, there was intense industrial activity and abnormal profits were earned, in some cases more than 200 per cents. The war had also made the workers conscious of their rights and they were prepared to fight for them if necessary. The influenza epidemic of 1918, which took a toll of about eight million people, thinned their ranks and made them feel their strength. The year 1919 saw the outbreak of industrial strife on an organized scale. Concerted strikes took place in textile mills in Bombay, Ahmedabad and Kanpur. A move to make a cut in 1923 in Ahmedabad led to a big strike. Bigger strikes came in 1924. The year 1915 was still worse. A move to make a wage-cut of 12½% led to a general strike lasting for two months in which the workers put up stubborn resistance against an attack on their wages. The next two years were relatively calm.

In 1928, there was an outbreak of industrial conflict of unprecedented intensity. Revolutionary and extremist elements had infiltrated into the workers' organizations pledged to destroy the existing capitalistic structure. All mills in Bombay were affected and stopped work for more than six months. There were other strikes, too, in some railways—at Jamshedpur, Sholapur and Kanpur. In all, there were 203 disputes in the year involving 506,850 workers with a loss of over 31 million working days.

Trade Disputes Act (1929). As a means of dealing with such disputes, the Trade Disputes Act was passed in 1929. Any dispute or apprehended dispute under this Act can be referred to a Court of Inquiry or a Board of Conciliation by the Government of India, in case of railways or concerns under Central Government, and by Provincial Governments when the concerns fall under their sphere. The Court of Inquiry is to be composed of an independent chairman and other independent persons or only one independent person. The Court is asked to investigate and report. The report is published to focus public opinion which may influence the parties to the dispute to come round The Board of Conciliation is to consist of one independent chairman and two or four other members representing equally both the parties and nominated by them. The Board tries to settle the dispute. The verdict of these bodies may not be accepted by the parties, although they are expected to do so.

There are special provisions relating to public utility services, i.e., posts and telegraphs, railways, tramways or undertakings supplying water, light, etc. For the employees of such services to go on a strike without giving 14 days' notice is a penal offence. It provides for the appointment of Conciliation Officers to promote the settlement of a dispute. Strikes and lock-outs which are calculated to inflict severe and general hardship on the community and are declared for a purpose other than, or in addition to, the furtherance of a trade dispute in the industry are illegal. Punishment is provided for those who join such illegal activities, and protection from union disabilities to those who refuse to join them.

In 1929 again, there was a general strike lasting for about six months involving over 109,000 workers and resulting in a loss of 7 million working days. The years 1928 and 1929 were the worst. They alone accounted for a loss of 43·8 million working days as against 40 4 million days in the preceding seven years and 16 7 million in the subsequent seven years. Between 1930 and 1933 comparative calm prevailed on the labour front in India. As the economic depression deepened there was a general movement to cut down wages, but there was widespread unemployment, and labour did not show any serious opposition.

Bombay Trade Disputes Conciliation Act (1934). As a result of the report of the departmental enquiry instituted by the Bombay Labour Office, the Trade Disputes Conciliation Act was passed in Bombay in 19 4. It provided for the appointment of a Labour Officer to look after the interests of the workers in cotton mills and to represent their grievances with a view to getting them redressed. There was also a provision for the appointment of a Commissioner of Labour to act as an ex-officio Chief Conciliator in cases where the Labour Officer did not succeed. In actual practice he was treated as a judge whose decisions were generally accepted. The act remarkably succeeded in slowing down the tempo of industrial strife in the province.

But the inauguration of provincial autonomy saw the recrudescence of industrial strife. The coming into power of popular Ministries raised high hopes among the workers who thought that the time had come when all their grievances, real or imaginary, would be redressed. In three years—1937-1939,—there were 1,184 disputes as against 1,039 in seven years since 1930.

Bombay Industrial Disputes Act (1938.) In 1938, in Bombay was enacted the Bombay Industrial Disputes Act which is a most advanced piece of legislation on the subject. According to this Act, strikes and lock-outs are illegal until the whole machinery for conciliation and arbitration of the dispute has been made use of. Conciliation will be attempted *before* the dispute occurs and *not after*. The employers must give notice to the representatives of the employees of any changes they propose to make in wages, hours of work, conditions of employment, etc. All the agreements arrived at as the result of conciliation have to be registered. Besides the appointment of conciliators and the Board of Conciliation, the Act also provides for the setting up of an Industrial Court with a High Court Judge as its Chairman or a lawyer who is eligible to be a High Court Judge. The Court will arbitrate on matters connected with a dispute and act as a final court of appeal on various matters arising out of the working of the Act and interpret agreements, awards, etc.

After the outbreak of World War II several strikes occurred. The workers put up claims for a share in abnormal war profits. There was a general strike in cotton mills in Bombay city in 1940 and a dispute in 1941 in Ahmedabad and a large number of disputes all over India in 1942 on the question of a war bonus and on account of political disturbances. But their demands for dearness allowance and war bonuses were readily conceded.

Lest it should affect the war effort it was felt necessary to devise some machinery to avoid strikes and lock-outs. With this object in view, *Rule 81-A of the Defence of India Rules* was issued in January 1942. According to this rule, the Central Government and provincial Governments have the power to issue an order prohibiting strikes and lock-outs, requiring employers to observe certain conditions of employment, referring to the Government a dispute for conciliation or adjudication and enforcing the award of the authority to which the dispute was referred. When a dispute has been referred for conciliation or adjudication, no strike is permitted until after the expiry of two months after the proceedings have finished.

Industrial Disputes Act (1947). It provides for several methods for settling disputes. There is a provision for the appointment of Conciliation Officers by the provincial Governments. These officers will act as mediators between the parties to the dispute. In case the Conciliation Officer fails to resolve the dispute, a Conciliation Board can be appointed with an independent chairman and two or four members. A Court of Inquiry can also be appointed to collect the necessary facts about the dispute and to report within a specified time.

The Act embodies the principle of compulsory arbitration. A provincial Government can refer the dispute to a Tribunal for adjudication and enforce its award in part or whole.

No strike or lock-out is permitted during the pendency of conciliation or adjudication proceedings. Very stringent regulations have been laid down about strikes in public utility services including all basic and essential industries. There are strict penalties for illegal strikes. Political and sympathetic strikes are, however, not prohibited.

The Act provides for the establishment of Works Committees in industrial establishments employing 100 or more persons. These committees are intended to iron out day-to-day differences between the management and the employees.

The year 1948 will go down in the history of industrial relations as a very eventful year. At no previous time was so much attention paid to the amelioration of the conditions of labour. A determined effort was made to place Labour-Capital relations on a satisfactory and stable basis. An Industrial Truce Agreement was reached between the representatives of the employers and the employees meeting under the auspices of the Central Government in Delhi on 15th December, 1947. It called upon Labour and Capital to observe truce for three years. To implement it a Conference of Provincial Labour Ministers was held in May, 1948. This Conference decided to set up Tripartite Advisory Committees at the Centre and the Provinces, with the Central Advisory Committee as the pivot of the entire truce machinery. It was also decided to set up Expert Committees to determine Fair Wage and Fair Return on Capital. A Housing Board was also set up to implement the decision of the Central Government to build 10 lakh houses in 10 years. Employment Exchanges and the Training Centres set up by the Labour Ministry were placed on a permanent footing.

The Expert Committee on Fair Return on Capital has recommended that after allowing depreciation on income-tax basis and then placing 10% of the net profits in the reserve fund, 6% on capital employed (*i. e.*, the paid-up capital plus all reserves, held for business purposes) should be a fair return on capital. Of the surplus above it, 50% should be distributed among labour and 50% should go to augment dividends.

The Central Advisory Council was set up in August, 1948. It has to consider the reports of Expert Committees and the Tripartite Industrial Sub-Committees set up for each industry to determine fair wage and fair return on capital and other relevant matters.

In pursuance of the Industrial Truce resolution Works Committees were set up in the various Provinces and States. It seems to have resulted in a substantial improvement in relations between Labour and Capital. As against 16½ million man-days lost in 1947, there was a loss of 8 million man-days in 1948.

The Government propose shortly to bring up Labour Relations Bill to replace the existing Industrial Disputes Act. The Bill contains several new features, such as standing labour courts and the appellate tribunal, and seeks to encourage negotiation and collective bargaining before the declaration of strikes.

15. Trade Union Movement in India. *History.* Up to the end of the war of 1914-18 Indian Labour was practically unorganized. In 1875, Mr. Sorabjee Shapurji Bengali drew the attention of the Government to the miserable lot of the labourers. But the first important step towards organizing labour was taken by Mr. Lokhande in connection with the agitation for the amendment of of the first Factory Act. He laid the foundation in 1890 of the first organization of labour, *viz.*, the Bombay Mill Hands Association.

But it was a loose organization formed simply for presenting a memorial to the Government. The Amalgamated Society of Railway Servants of India and Burma was formed in 1987 with functions more fraternal than militant Of the organizations formed in the beginning of the present century, mention may be made of Printers' Union, Calcutta, 1905, Bombay Postal Union, 1907, and the Kamgar Hitwardhak Sabha in 1910. This latter was composed of a body of social workers to plead the cause of the workers. It was for them and not of them.

The first World War was responsible for mass awakening. Seeing that the capitalists were reaping a rich harvest of war profits, the workers wanted their own share, especially when the cost of living had gone up very high. Discrimination against Indian labour in the colonies, the growth of Indian national movement and the revolution in Russia were also some of the factors that gave a fillip to the Indian labour movement. New ideals came to be preached and new aspirations cherished. A spirit of defiance was abroad. "With the social mind surcharged with war spirit, political agitation and the revolutionary ideal, the labouring classes could no longer remain patient and tolerant under the old social wrongs and new economic disabilities."[1]

The credit for forming the first industrial union goes to Mr. Wadia who organized in 1918 the textile workers at Coolai in Madras and next year the number of unions rose to four with 20,000 members. Other industrial centres followed suit and formed organizations of local workers. Between 1919 and 1923 scores of unions came into existence. Mahatma Gandhi in 1920 formed at Ahmedabad a Spinners' Union and a Weavers' Union and by the middle of 1921 trade unions had 20,000 members with funds amounting to Rs. 75,000.

These early unions were, however, mere strike committees and evaporated as soon as their demands were fulfilled. They seldom gave notice of a strike, could sometimes hardly formulate any grievances, and would often shift their ground or put forward extravagant claims. Further, the unions were isolated from one another without any solidarity among them.

Soon a movement for co ordination set in. The necessity of electing delegates for the annual International Labour Organization gave some impetus to this movement. The local unions were federalized, and then Provincial Federations came to be formed. The first All India Trade Union Congress—a national federation of all unions—was held in 1920.

Trade Union Act (1926). In the well-known case of the Buckingham Mills in 1920, the Madras High Court issued an injunction against the Madras Labour Union for inducing workers to go on strike. This was a bolt from the blue, for the labour leaders suddenly realized that they could be prosecuted for *bona fide* trade

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1. Dass, R. K.—Labour Movement in India, 1923, p. 25.

union activities. After about five years' efforts, the leaders succeeded in getting the Indian Trade Union Act of 1926 passed. This Act lays down certain conditions regarding registration of a union. For example, 50% of the members of the executive committee must be employed in the unit or units covered by the union. Subject to this, any seven or more members can apply for registration. No person under 15 can be a member of a union. The registered unions are not allowed to use their funds for political purposes, although they are permitted to have separate political funds to which the subscription is purely voluntary. The purposes for which the funds can be spent have been definitely laid down. They are also required to submit annually an audited statement of accounts, a copy of the rules and a list of the officers and executive committee. They have also to provide for the inspection of books. But the Act confers on registered unions certain rights and privileges. They enjoy immunity, both civil and criminal, from prosecution for their activities connected with the furtherance of a trade dispute. The Trade Union Act was amended in 1948. The amendment provides for the compulsory recognition of the trade unions by employers under the orders of a Labour Court.

In the beginning the unions were slow to register themselves for there were practically no prosecutions after the Buckingham Mill case and the unions were unwilling to undergo the expense of registration and inconvenience of submitting annual returns. But this inertia was soon overcome and registration proceeded apace. The attitude of the employers using non-registration as an excuse for not recognizing a union also accelerated the movement for registration.

In 1928-29, Communists and Left-wing radical leaders captured the key positions in Trade Unions But the subversive activities of this extremist element led to the arrest of 31 ring-leaders who were tried in the famous Meerut Trial. As the result of the report of the Court of Inquiry in 1929, which held the Girni Kamgar Union solely responsible for violence and disturbances, the Trade Unionism in India was discredited. When the radical wing captured the All-India Trade Union Congress in its tenth session held at Nagpur, in 1929, the moderate element under Mr. N.M. Joshi seceded and formed the All-India Trade Union Federation. This split seriously weakened the trade union movement in India. In 1931, there was a further split when the extreme Left-wing leaders, Deshpande and Randive, formed the All-India Red Trade Union Congress.

But although efforts at compromise were started in 1931, when a Trade Union Unity Committee was formed which put forward a 'platform of unity', yet the gulf was really bridged only in 1938 through the efforts of Mr. V.V. Giri, Minister of Labour in the Madras Government. The provisional agreement was finally ratified in 1940.

The outbreak of war led to some secessions, the difference centring round the question of the war-effort. The Trade Union Congress adopted an attitude of neutrality. The 'Royists', under the leadership of Mr. M. N. Roy) who were in favour of all-out support for the war effort, formed their own organization, the Trade Union Federation. Another important group outside the Trade Union Congress is the Hindustan Mazdoor Seva Sangh, an organization which aims at organising labour on the lines laid down by Mahatma Gandhi.

In order to check Communist influences infiltrating into the labour ranks, the All-India National Trade Union Congress has been formed under the influence of the top Congress leaders. This new body aims at securing redress of grievances without stoppage of work, by means of conciliation, and, failing that, by arbitration and adjudication. It wants to adopt means which are peaceful and consistent with truth.

The trade union movement in India has made remarkable progress in less than a generation. In few other countries such a rapid progress has been shown. The movement is fairly widespread and the Trade Union idea has taken deep roots. The unions are no longer mere strike committees. They are now better organized, and are more permanent in character. They have acquired a following and a prestige and wield enormous influence. They have a fairly large number of successes to their credit and have undoubtedly succeeded in wresting important concessions and improving the working conditions. Leaders like Mr. N. M. Joshi and Mr. Gulzari Lal Nanda will do honour to any labour organization in the West. The International Labour Conventions, the Press, public opinion and the Indian national movement have all contributed to the growth and strength of the trade union movement in India.

Present position. But our labour movement cannot claim to have come as yet any way near the standards long ago attained in the West. The trade unions in India can claim as members only a small fraction of the total strength of the industrial force. Most of the leaders are outsiders, lawyers and other professional men or politicians. The funds at their disposal are meagre and they cannot afford to support the workers when on strike. Few unions pay unemployment, sickness and old age benefits. Not many unions do any welfare work. Their fraternal or "mutual help" side is practically undeveloped, and they have confined their activities almost exclusively to the militant functions, *i. e.*, getting their grievances redressed and formulating demands for higher standards and better conditions.

✓ *Handicaps.* There are certain handicaps from which the trade union movement in India suffers. (1) The labourers are illiterate, ignorant and migratory, without any permanent interest in industry. (2) They are unwilling to submit to discipline and unable or reluctant to pay subscriptions. (3) Diversities of language, religion and caste, and different social customs and habits are serious obstacles in building up labour solidarity. (4) Their low wages keep them down. (5) Long hours of work do not leave any energy in them to take interest in the union activities. In the depressed conditions that our labour is in, it is idle to expect of them to think of union politics. (6) The hostility of the jobbers and the employers has been another stumbling block. (7) The leaders have sometimes been opportunists and have had their own axe to grind. They often quarrel among themselves holding divergent views, and labour has been not infrequently exploited.

Leadership must be developed from within the labour ranks if the movement is to be placed on a stable footing. It is hoped that as workers with education and intelligence join the factories, it will be possible to do so. The employers must also adopt a more sympathetic attitude and be easily accessible to their workers. They must realize that only a strong labour union can guarantee industrial peace.

Suggestions for Further Reading.

1. Mukerjee—Indian Working Class.
2. Das, R.K.—Labour Movement in India.
3. Shiv Rao—Industrial Worker in India.
4. Mukhtar—Factory Labour in India.
5. Pannandikar—Industrial Labour in India.
6. Report of the Royal Commission on Labour.
7. Report of Rege Committee.
8. U. P. Labour Enquiry Committee Report.

CHAPTER XXI

TRANSPORT—RAILWAYS

1. Importance of Transport. "If agriculture and industry are the body and bones of a national organism communications are its nerves."[1] Transport and industry are obviously interdependent. The agricultural resources of a country too can neither be developed nor properly handled without adequate means of transport and communication. India is mainly an agricultural country; 87 per cent of the people live in villages, while 68 per cent of them win their daily food from agricultural occupations. The development of the means of communication has broken the isolation of the village and has brought about a change from subsistence economy to the cultivation of cash crops, like cotton, jute, oilseeds and tobacco Without means of transport these could not be marketed either inside or outside the country.

India is a sub-continent with huge distances. In the past the natural configuration of the country would not allow it to be unified. Men and materials could not be moved easily and quickly from one point to another. There were only a few trunk roads built by the rulers of the day—the Afghans or the Moghals—but they were too few to meet the needs of the people. Even today, "more than half of the perishable produce of British India runs to waste on account of delay in reaching the market."[2] Huge areas are totally devoid of any lines of communication, and in some districts 70 to 80 per cent of the villages are entirely cut off from communication with the outside world during the monsoon season.

The history of civilization is the history of transport and communications. The road-makers carried aloft the torch of light and progress. They led and civilization followed. Homesteads, hamlets, villages, towns and cities followed in their wake one after the other. The track was transformed into a road, unmetalled at first and then metalled. Trade and commerce developed till we find the world as it is. The economic progress of man corresponds with the evolution of the means of transport. Not only goods are carried by their means, but the cultural, social and moral advancement of a country directly depends upon them. They diffuse knowledge, remove prejudice and destroy ignorance.

As late as the middle of the nineteenth century, India had no roads worth the name. It was in the time of Lord Dalhousie that preliminary steps were taken in the pursuit of an active public works policy. We shall discuss under railways the nature of the policy followed—its selfishness and utter lack of planning. It is sufficient to remark here that the net means of communication resulted in the breaking down of the isolation of the villager who now started growing crops for the world market in place of the village market.

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[1] India in 1925-26.

[2] The Hon'ble Mr. J. H. Parker.

Means of transport in India are of four main kinds—(a) Railways, (b) Roads, (c) Waterways, and (d) Airways. We shall deal with each of them one by one.

2. Railways in India compared with some other important countries.—The total milage of railways in the Indian Dominion today is 33,865.[1] Before the outbreak of the war a good deal of the milage was worked by private companies like the Bengal Nagpur, South Indian, etc., but now with a few very minor exceptions, all the company railways have been purchased by the Government and almost all are State-owned. There are a few private lines like the Nizam's Railway and Bikaner Railway owned by the Indian States. During the war the milage went down by just a little more than 600 due to the closing down of some branch lines for material to be used for defence purposes.

Milage figures do not give a correct idea of the sufficiency of railways in a country. They should be taken in relation to the area and population served. The following tables will give us a comparative idea of the position of India so far as railways are concerned.

TABLE I

Milage of railways per 100 square miles of area

U. S. A.	6.6	Canada	1.0
Union of South Africa ...	2.4	Europe excluding Russia	11.5
Argentina	2.6	Belgium	40.0
Australia and New Zealand ...	.9	U. K.	20.0
Russia in Europe	1.5	Germany	20.0
		Indian Dominion ...	2.8

TABLE II

Milage of railways per 100,000 of population

Canada	465	U. S. A.	224
South Africa	164	U. K.	46
		Indian Dominion ...	10.7

Table I above tells us that the railway milage of India does not compare unfavourably with that of other countries where agriculture predominates, *e. g.*, Canada and Australia, but compared with industrial countries like Belgium and the U. K. India is but poorly served.

Table II is very revealing. India lags behind even agricultural countries, like Canada, when the railway milage is studied in relation to population. To compare India with a small highly industrialized country like Belgium would be meaningless. To have a correct perspective India should be compared with the U.S.A. The U.S A. has almost twice the area of India. She has long distances, tall mountain ranges, burning deserts and huge rivers as India has. In spite of all these obstacles, the U S A. owns more than a quarter million of railway miles, while India can boast of a bare 34,000. Roads would be a great help and might fill the gap to some extent, but even in these India is deficient. She needs more railways, wisely planned in co-ordination with the other means of transport like roads and waterways. Unnecessary duplication resulting in ruinous competition is deprecated and should be avoided at all costs.

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[1] The Hindustan Year Book, 1948, p. 102.

3. Some Benefits from Railways. Railways have removed the horrors of famines in India. The great mortality in human and animal life has disappeared. Famines are no longer famines of food but famines of money. The recent Bengal famine was an exception. During 19·3 the whole machinery of distribution in Bengal broke down. Due to various causes (discussed elsewhere) the supplies were insufficient and reserves nil.

Railways have linked the cultivators of India with markets throughout the world.[1] The agricultural wealth of the country is exported abroad in return for foreign manufactured goods. The standard of living of the people has changed for the better only moderately, but the fault lies with the immense increase in population. The methods of cultivation over a large portion of the country are still primitive, but for a glimmer of improvement in areas served by the railways. The railways not only disseminate knowledge but are also responsible for a greater use of improved seeds and manures and cheap transport of implements of a better type.

Railways have tended "to break up the existing social organization" of the country.[2] Caste prejudice has largely disappeared and the bonds of joint family system broken. But alongside these benefits, the Panchayat system got a severe blow and litigation increased manyfold, but we have to take the good with the bad.

The mobility of labour has increased. In the tea plantations of Assam, the factories in Bombay and Calcutta, workers from all over the country are found working shoulder to shoulder. If the various castes do not yet love each other, they have realized that they can live only by each other's sufferance and the credit largely goes to the railways for this wholesome change. The Brahmin with the caste-marks painted across his forehead travels to holy Kashi in a third class railway compartment sitting cheek by jowl with a low caste sweeper whose shadow falling on him would have created a fine rumpus 50 years back.

Quicker means of communication have greatly increased the amenities of life in urban areas. Fruits from Quetta, fish from

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[1] The Report of the Royal Commission on Agriculture, p. 362.
[2] *Ibid.*

Bombay, mangoes from Saharanpur are selling all over the country. Perishable articles like eggs and milk travel long distances overnight to reach their consumers the next day.

It must also be borne in mind that the central administration of a vast country like India is possible only because of railways. They have given the country internal security and external safety. Economic life of the people cannot be planned on a large scale without an efficient system of railways. Agriculture and industry, trade and marketing are all dependent on quick means of transport. India would degenerate into a large number of warring States if railways were not there to maintain the social and cultural contacts of the people.

4. Defects in the Growth of the Indian Railway System. Indian railways were not planned in advance and have grown haphazardly. The first railroad was from Bombay to Kalyan, a distance of 33 miles (1849). The next two were from Calcutta to Raniganj (123 miles) and Madras to Arkonam (33 miles) Bombay then was not a commercially important place, nor were Calcutta and Madras. They became pre-eminent because of the railways. Had railways been constructed on a plan, they would not have connected unknown places like Arkonam, Kalyan and Raniganj, but would have linked up places like Dacca and Banaras and opened up the rich agricultural areas of the country. Secondly, constructed from one point and opening out fan-wise, carrying all their materials with them for further extensions, they would have proved far less costly.

The railways ruined old towns and centres of old industries and created new ones on an unco-ordinated basis. They destroyed the cohesion of the old economic system and did not help to evolve a sound one instead. They mainly created 'distributing centres' for foreign merchandise. It was only incidentally and much later on that they developed factory industries in seaport towns far away from the interior. The result is that these industries have to import their labour force from distant areas which leads to congested slums and labour troubles Even today the importance of these towns as distributing centres for foreign goods far outweighs their importance as industrial ones.

Places like Murshidabad and Madura were important industrial centres in old times. A sound railway system would have early linked them up and assisted them to grow further. As it is, they are mainly used to distribute goods. The Industrial Commission very correctly stated in 1918 : "Most of the 500,000 villages have not yet been touched by metalled road or railway," and things have not much improved since then. It is the system that has been at fault, not the railways as such.

5. History of the Development of Railways in India. It easily falls into a number of prominent periods which will be dealt with one by one.

(*i*) *The old Guarantee System, 1849-1869.* Lord Dalhousie's famous minute recommending railways for India to promote

British trade and commerce was accepted by the Court of Directors. England was "calling aloud for raw materials like cotton"[1] and markets to dispose of her manufactures like cloth. India also would gain similar "social and commercial advantages."[2] By the end of 1859 eight companies had been formed under the Guarantee System. The Government agreed to supply land free to these companies and guaranteed a minimum interest of 5 per cent on the capital outlay. The companies in return were to sell the railways to the State after 25 years or 50 years, if the Government so desired. They had to pay to the Government one-half of the surplus profits, if any; after paying themselves the guaranteed interest and to allow the Government general control over management, expenditure, etc.

This system has met with universal condemnation. The progress was slow due to the lack of engineers and skilled labourers. The rate of interest at 5% was too exorbitant. Sure of a solid return for their money, the Managers and Directors did nothing to economize and the Government had to pay no less than two and a quarter million sterling[3] of the tax-payer's money during this period.

The system proved too costly. Nor could the Government keep effective control. They tried to attract capital by promising subsidies for every new mile of line and bridge but failed and in 1869 made up their mind to go in for constructing railways themselves. Under this system 4,255 miles of railways were built.

(*ii*) *State Construction of Railways, 1869-1879* For ten years the Government did not make any fresh contracts with any company and found Rs. 4 crores a year for railway construction. By the end of 1879 the total milage reached 8,090. Out of this, 6,000 miles had been built by the companies at a cost of £ 98 million and 2,000 miles by the Government at less than one-fourth the cost per mile.

The Strachey (Famine) Commission reported in the year 1880 that India must have an additional 5,000 miles of railways to ensure safety against famines. The Government was not able to find money for this increase and had to fall back upon the old system.

(*iii*) *The New Guarantee System, 1879-1900.* Heavy expenditure in the relief of two consecutive famines in Bihar and the Deccan and the fall in the value of the rupee compelled the Government to give up constructing railways themselves and once again to enter into contracts with companies They were, however, wiser by experience and made better bargains now. They guaranteed 3½ per cent interest on the capital found by companies, reserving for themselves three-fourths of the surplus profits, if any, and

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1. Lord Dalhousie—Railway Minute 20th April, 1853.
2. *Ibid*
3. R. C. Dutt—India in the Victorian Age.

the power of terminating the contract at the end of 25 years or after further intervals of 10 years on payment of the capital at charge to them. The total milage of railways laid down in this period was 4,000.

(*iv*) *Pre war Period, 1900-1914.* Although the main railway lines were completed by 1900, yet branch lines were urgently needed. In 1907, the Mackay Committee stressed the need for a steady annual outlay of capital on railways, and suggested Rs. 18 crores a year. The Government could not keep to the letter of the recommendation but did actually invest Rs. 92 crores in six years from 1908 to 1913. During this period more than 10,000 miles of branch and feeder lines were laid. The total railway milage in India in 1914 was more than 34,000.

(*v*) *The War Period, 1914-1920.* Neither rolling stock nor engines could be imported during the war years. New programmes of construction had to be postponed indefinitely. Even the lines in working could not be maintained. The strain of carrying men and materials for the army was too heavy to cope with. Some of the staff, rails and rolling stock had to be despatched to East Africa and Mesopotamia for the conduct of war. The railway system utterly broke down. Many bridges grew too rotten to bear trains safely. Engines, not worth even yard duty, were still upon the line. Goods wagons were used to carry passengers on branch lines. Goods lay rotting in the godowns for weeks before they could be loaded into wagons. The Acworth Committee wrote in 1921 : "There are many miles of rails, hundreds of engines, and thousands of wagons whose rightful date for renewal is long overpast." Naturally there was a clamorous demand by the public for State management of railways.

(*vi*) *Railways since 1921.* In November 1920, an expert committee was appointed under the presidentship of Sir William Acworth, a British railway expert. The committee submitted its report in 1921. The contract with one of the most important companies (E. I. R.) was over in 1919 and had been renewed for five years. Whether the contract was to be further renewed or the company bought out was one of the important questions to be considered by the committee. A large number of witnesses were examined and the pros and cons of State *vs.* Company management carefully gone into.

6. Arguments for and against State Management in India. Government departments are a slave to routine and red-tapism. They have neither despatch nor initiative. They are more swayed by political considerations than efficiency. Railways are a commercial proposition and need business methods, dash at one time and caution at another. Such qualities are rare in bureaucrats, trained in juggling with files. Railway budget being a votable charge, railway policy would depend more or less on party politics and could not be expected to be uniform and continuous. Other countries like the U.S.A. and the U.K. have no doubt efficient, privately-owned and operated companies but they are strictly regulated and controlled. Railways in the U.K. have been recently nationalized.

The Acworth Committee were equally divided over the question of management of railways in India. The president was in favour of State management and his side won with his casting vote.

As conditions in India are different from other countries arguments in favour of private management of railways do not hold water here. Most of the capital involved in railways belongs to the State. To hand over such vast property to companies with headquarters in England was unthinkable. India had had enough of them in the early days of railway development. The system of " dyarchy " or divided responsibility can never make for efficiency. With the State as dominating partner, without powers of initiative, even Indian domiciled companies were bound to be a failure. There was no attraction for the few really capable Indian *entrepreneurs* to undertake to run railways when they were sure to be browbeaten and hampered at every step by the executive.

Further, Indian sentiment is in favour of State management of railways. Money invested belongs to India—Indian opinion in the matter should be final. Indian belief, based on experience, was that in railways there was no room for Indians at the top, unless the State managed them. This was not an argument that could be lightly dismissed. In addition, all profits would go into the Central Exchequer and help to reduce the burden on the tax-payer. Company management in India was prone to discriminate in favour of foreign imports in their rates. This was detrimental to Indian industrial interests. Such discrimination, it was held, was not possible under State management, as the State was more amenable to public criticism. Grievances of business men and poor class passengers could be more easily ventilated and redressed with State at the helm of affairs.

Co ordination of the means of transport is more feasible with railways owned and managed by the State. Roads, railways and waterways would all be developed as they deserved. Company railways in the past cruelly undercut traffic on water, both coastal and inland. So from 1925 almost all the railway lines have gradually come under State management. The Government now owns more than 95% of the railway system. Sir E. Benthall in his budget speech for 1945-46 said, "The Indian railways are now almost 100 per cent Indian-owned and they are 99¾ per cent operated by Indians and Anglo-Indians. They are an asset of which India can be proud."

Railways belonging to the State but managed by companies are very small and minor ones like the Dhone Kurnool, Bezwada Railways, etc. There are some railway lines like the Bikaner State Railway and the Nizam State Railway owned by Indian States. These also are not very important.

7. Railways During the War, 1939-45. The railways during the last world war were much better equipped to meet the emergency than during the first one. For the first two years of the war, "it seemed they could discharge most of the demands made on them." But in 1941-42 military traffic grew enormously while alternative means of transport contracted " to an embarrassing extent". Due to the entry of Japan in war, coastal traffic was greatly reduced and the whole pressure fell on the railways, specially the work of transporting coal. Hence the number of wagons left for " public " supply was very inadequate. Replacements of worn-out stock were difficult.

Some of the railway workshops were given over to the production of munitions in which more than 20,000 skilled technicians were employed. Thus a good deal of the skilled personnel had to be sacrificed for military and ancillary services. The rising tempo of war resulted in serious overcrowding and hardship for civilian traffic. In 1942, for purposes of co-ordination of traffic the War Transport Board was created. The Railway Department was included in it. During this year there was serious dislocation of railways due to sabotage and heavy floods and cyclones at a time when there was an ever-increasing demand on railways due to sea-borne traffic having disappeared. The Transport Board had to solve three main problems :—

(*a*) The problem of carrying military and essential services by rail.

(*b*) The problem of organizing alternative means of transport.

(*c*) The problem of creating and organizing administrative machinery for the above.

Accordingly, a Central Transport Organization with Provincial Regional Transport Boards was created in February 1942. Its duty was to relieve traffic congestion on railways by co-ordinating all forms of alternative traffic. The job was not an easy one. Traffic was diverted where possible from railways to coastal craft, both steamers and country boats. Wherever there were suitable roads, traffic was diverted to them.

Gradually railway transport was rationalized. All non-essential traffic was discontinued and a system of priorities introduced. Special arrangements for Mela traffic (like the Kumbha Mela) were cancelled and cheap fares and concessions of all kinds withdrawn. Passenger trains were much curtailed resulting in extreme congestion in the trains. Passengers were seen hanging on to footboards, riding on the tops of trains and even on the buffers between the bogeys. In spite of the railway propaganda of "Travel only when you must," railways had to carry 20 million more passengers a month or 6,50,000 a day at a time when military movement had increased no loss than 27 times.

Railways tried their best to see that each wagon travelled fully loaded and was never idle. The rate for parcels was increased and an extra charge of 4 annas per rupee imposed on all consignments of less than a wagon load. Constant attention was paid to maintenance. The daily task of each locomotive was increased, and the wagon's average load further enhanced. In spite of the difficult circumstances, "the railways succeeded in maintaining the life of the country, whilst meeting the demands of the military and of every essential industry" including the transport of foodstuffs to deficit areas.

8. **Railway Administration** At their inception in 1848 Railways were put in charge of the P.W.D. by Lord Dalhousie. In time, with the increase in traffic, the railways grew too big for the P.W.D. Accordingly in 1905 a Railway Board with a chairman and two members was created to administer the railways. Certain minor changes were made in the constitution of the Railway Board from time to time. The question was thoroughly examined by the Acworth Committee in 1921 and in 1924 the Railway Board was reconstituted as below :—

(1) A Chief Commissioner replaced the President of the Board. He was responsible for the railway policy and could not be overruled by his colleagues. There were two more members. The work was divided among the members on the basis of subjects and not territorially.

(2) A Financial Commissioner was considered to be urgently necessary. Later the appointment was made in 1924.

The object of this reorganization was to relieve the Chief Commissioner and members of all unimportant work so that they could devote all their time to matters of railway policy and to keep contacts with different railway administrations. This object was achieved by the appointment of Directors of Civil Engineering, Mechanical Engineering, Establishments and Finance and 11 Deputy Directors and two Assistant Directors.

Labour questions were becoming increasingly important every day. Hence a third member was appointed to the Railway Board in 1929. His main duties were connected with the solution of labour problems and improvements of service conditions of junior staff.

Today the Railway Board consists of the Chief Commissioner, the Finance Commissioner and three members. Under them there are 10 directors, many deputies and assistants, all technical men who are in direct charge of the various branches of the Railway Department.

The Kunzru Railway Enquiry Committee which has submitted its report this year (1949) has recommended the establishment of a Central Controlling Authority over the Railway Administration from 1953. The other three branches of transport—roads, sea and air—were beyond the Committee's terms of reference. They have, however, to be borne in mind at the time when a National Transport Authority is created. Co-ordination is possible only if one Authority is created and not four different ones

9. **Railway Finances** (i) *Railway Deficits.* From 1858 to 1898 railways in India were a losing concern. The total loss incurred during these years was about Rs. 58 crores. These continued annual deficits were mainly the result of uneconomic construction, inefficiency of guarantee companies, lack of sufficient traffic and losses on strategic lines like the N.W.R.

(ii) *Railway Surpluses.* After 1898 the deficit changed into a surplus except for the years 1908 and 1921. These surpluses continued till 1930 and were due to the new irrigation works in the Punjab and Sind, increase in traffic brought about by the economic development of the country, better financial bargains with the companies and a great rise in the foreign trade of the country.

(iii) *Separation of Railway Finances, 1924-25.* In addition to other important changes in administration brought about by the recommendations of the Acworth Committee, railway finances were separated from the general finances from 1924-25. The following reasons were advanced for this revolutionary departure from the old practice :

(a) So long as railways remained a part of the general finances, their fortunes varied with those of the Government. The financial position of the Government reflected itself in that of the railways. In these circumstances, there could not be a continuity in railway policy and business methods could not be pursued. In good years there was waste, and in bad ones, starvation of essential services. Railways were a commercial proposition and could not prosper when no reserves were maintained in good years and the whole surplus was utilized for general purposes.

(b) The railway budget was a huge affair, the gross receipts being above Rs. 100 crores in 1924. A good year for the railways made the Central Budget prosperous and *vice versa.* The prosperity of the railways depended on the monsoons. Ample and timely rainfall reflected itself in abundant traffic. Thus the Central Budget was nothing short of "a gamble in monsoon."

It was claimed that the separation of railway finances would enable the railways to be run on a commercial basis and would relieve the general budget of the most fluctuating and incalculable factor which made it a gamble.

Accordingly a convention was adopted by the Central Assembly in 1924, by which the railways were to make a fixed annual contribution of one per cent on the total capital at charge on commercial lines plus one-fifth of the surplus profits in that year. The interest on the capital at charge of strategic lines and any loss in working them was to be debited to the general revenues. In addition to the above payments, the railway revenues had to pay to the Central Government one-third of the excess over three crores of any surplus remaining to them and the remaining two-third was to go to the Railway Reserve Fund.

Contributions to the Depreciation Fund were to be deducted as a part of the expense. After making all payments, what was left over was to be credited to the Railway Reserve Fund. On this, too, the Central Government had the first lien if their contribution of one per cent interest was not paid in any year.

(*iv*) *In Pre-war Years.* The railway contributed to the general revenues in seven years from 1924-25 to 1930-31 a total of Rs. 4,165 lakhs but in the last year, 1930-31, the interest charges were higher than the net revenue by above Rs. 5 crores. Hence the contribution to the general revenues was paid out of the railway reserves.

From 1930-31 to 1936-37 the interest charges always exceeded the net revenue In 1937 38 net revenue improved and was higher than the interest charges by Rs 276 lakhs and this was the contribution made to the general revenues.

The Moratorium. According to the Convention adopted in 1924, the first charge on the railway surplus was the Depreciation Fund. During the years 1929-30 to 1936-37 the railways not only spent away the whole of the Reserve Fund but borrowed Rs. 31 crores from the Depreciation Fund to pay the interest on capital at charge. Thus the first surpluses after 1936-37 should have gone to the Depreciation Fund and anything, if left over, should have been contributed to the general revenues. In 1937, the Railway Member proposed a moratorium for three years for the repayment of this liability. The moratorium was later extended to 1942 and then for another year. By 1943, however, the arrears of contribution to the Central Government as well as loans from the Depreciation Fund were all cleared.

(*v*) *During War Years.* After the outbreak of World War II, the railway revenues improved all of a sudden due to increased traffic, absence of road and coastal competition and heavy transport of army men and materials. The railways wiped away all the arrears due from them to the general revenues as well as paid back the loans borrowed out of the Depreciation Fund. Thus, since the beginning of the war to the end of the fiscal year, 1945-46, the general revenues gained from the railways the magnificent sum of Rs. 158 crores.

Passenger fares were increased and surcharges were imposed on coal traffic to collect funds for providing amenities to lower class passengers after the war was over It was seen that there was urgent need for the creation of greater reserves—

(a) for abnormal needs for repairs after war and for writing down stocks purchased at inflated prices ; and

(b) for continuing high wages and coal bills after the war when net railway receipts would probably go down.

The war years brought a great increase in receipts. The increase in passenger traffic, especially upper-class, was greater than in goods. The campaign to restrict travel proved fruitless. The increase in population and the increase in money circulation were responsible for the overcrowding.

There was an equally great increase in expenditure. Relief had to be given to the railway staff in cash and kind. Many grain-shops and officers' shops supplying articles of daily use at control rates were started from 1944 onwards. Another cause in the rise in expenses was that a large portion of capital expenditure hitherto debited to capital and depreciation account was debited to current revenues from 1944-45 onwards To meet this special liability the railway contribution to General Revenues was limited at Rs. 30 crores both in 1944-45 and 1945-46 instead of dividing the surplus as in 1943-44. This was done to protect the Depreciation Fund and Capital Account and thus to enable the railways to enter the post-war period in a fit state to meet the expected expansion of trade, industry and rehabilitation.

The details of railway budgets are given in Table III (opposite).

(*vi*) *Post-war Railway Finances.* The post-war years have proved rather difficult so far as railway finances are concerned. This was mainly due to the strain of the Second World War, the partition of a united railway system into two, the evacuation of refugees, the violent civil disturbances in the Punjab, the aggression and fighting in Kashmir, the Hyderabad police action and the urgent need for distribution of food grains and coal all over the country. These problems were at once difficult and unparalleled in their nature and intensity. There was complete dislocation in finances. As a result earnings dropped and expenses increased in the first 7½ months after the partition (the 15th of August, 1947). There was thus a deficit of Rs. 2·74 crores which was met by withdrawals from the Railway Reserves.

In the budget for 1948-49 the total income from traffic receipts is expected to be Rs. 204·5 crores in the revised estimates. The expected working expenses are put at Rs. 168·71 crores. Thus the net revenue comes to Rs. 35·7 crores. After deducting the interest on the capital at charge from this sum, the net surplus is estimated at Rs. 15·83 crores.

The traffic receipts in 1949-50, after deducting a loss due to rebates, etc., comes to Rs. 204·4 crores, out of which, working expenses depreciation charges and payments to worked lines totalling Rs. 172 crores ought to be deducted. The net revenue is thus expected to be Rs. 32·32 crores. Out of this amount Rs. 22·81 crores are to be deducted for interest charges, leaving a net surplus of Rs. 9·72 crores.

These surpluses are to be disposed of by contributing Rs. 7·34 crores to the General Revenues for 1948-49 and Rs. 4·72 crores for 1949-50. Rs. 0·84 crores are to be added to the Railway Betterment Fund in 1948-49.

Table III.*

FINANCIAL BUDGETS OF RAILWAYS (IN CRORES OF RUPEES)
(For some selected years).

	1930-31	1935-36	1938-39	1943-44	1944-45	1945-46	Revised 1946-47	Revised 1948-49	Budget 1949-50
1. Net Gross Receipts	100	96·6	99·6	185·4	214·3	225·7	206	204·5	210·0
2. Deduct working expenses including depreciation and share of working lines	72·5	69·5	69·2	108·8	147·5	164·5	174	168·7	172·0
3. Net Traffic Receipts	27·5	26·5	30·4	76·6	66·8	61·2	32	35·8	38·0
4. Net miscellaneous Traffic Receipts	·1	0·9	0 2	2·8	3·0	4·2	3	2·3	—5·6
5. *Total Net Revenue*	27·5	27·4	30 6	79·4	69·8	65 4	35	38·1	32 4
6. Deduct Interest charges	32·7	31·4	29·3	28.5	27·8	27·2	26 5	22·3	22·9
7. Surplus	5·2	—4·0	1·3	50 9	42·0	38.2	8.5	15·8	9.5
8. Contribution to general Revenues	5·7	—	1·3	37·6	32·0	32·0	5·5	7·3	4·7
9. Transferred to Railway Reserve	10·9	—	—	13·3	10·0	6·2	—	7·6	4·7
10. Special addition to Depreciation Reserve	—	—	—	—	—	—	—	—1	—1
11. Betterment fund	—	—	—	—	—		3·0	0 9	

*Budgets for 1948-49 and 1949-50 are for the Dominion of India alone. The year 1947-48 is not given as it was split into two parts, for first five months for United India and last seven months for the Dominion of India.

It has been considered that the Railway Depreciation Fund and the General Revenues are in greater need of contributions from railway income this year (1949-50) than Railway General Reserve and Railway Betterment Funds.

The annual appropriation to the Depreciation Fund is made at one-sixtieth of the charge, but much more is needed in actual practice as the withdrawals will be more than twice the normal contributions in the coming years.

It has, therefore, been considered necessary to re-examine the Convention relating to the separation of Railway from General Finance adopted in 1924 by the old Central Legislative Assembly.

These surpluses are proposed to be disposed of as follows :—

	1948-49 Rs.	1949-50 Rs.
General Revenues ...	7·34 crores	4·72 crores
Railway Betterment Fuud ...	0·84 ,,	...
Railway Depreciation Fund ...	7·65 ,,	4 72 crores

The normal contribution to Railway Depreciation Fund comes to a little over Rs. 11 crores, but the withdrawals in 1948 49 amount to over Rs. 22 crores and in the next year to Rs. 33 crores. This will mean a complete exhaustion of the Depreciation Fund in a few years.

(*vii*) *Railway Finances—Future.* The Convention separating Railway from General Finances was adopted in 1924. It was laid down that the Convention should be periodically reviewed. In 1942, Sir A. Clow thought that the old convention could not take its ordinary course, for that would mean denying such relief to the tax-payer as he could legitimately ask for. In 1943, Sir E. Benthall remarked that the Convention of 1924 had not achieved its objective of bringing prosperity to the railways. He argued that by 1939-40, no less than Rs. 18 crores had been withdrawn from the Reserve ; the contribution to the general revenues had fallen short of Rs 36 crores and loans totalling over Rs. 30 crores had been borrowed from the Depreciation Fund to meet the interest charges. The Convention had also failed during war years, as a moratorium had to be declared time after time in order to give an extra share of the surpluses to the general revenues. Sir E. Benthall, therefore, proposed that the convention relating to contribution and division of surplus between railways and Central Government should be revised later, when the war was over, and after due consideration. He stressed the point that railways should not be in the exhausted condition they were in after the war of 1914-18 ; otherwise the old lesson would have been learnt in vain.

The Kunzru Commission (1949) thought that an enquiry into the working of the Convention was no doubt necessary but concluded that unless the trade position and the price level became clear no useful results could be achieved by an enquiry. Mr. G. Ayyangar, however, thought differently. Accordingly a committee of nine members was appointed in March, 1949, to review the working of the Convention relating to the separation of Railway from General Finances, and to examine the constitutional administration of the Railway Depreciation Fund, the Railway Betterment Fund and the Railway Reserve Fund. The Committee is also expected to examine other ancillary matters and is expected to make recommendations before the end of 1949.

10. Railway Enquiry Committees. (*1*) *The Pope Committee, 1932.* The Great Depression of 1930 found the railways unprepared. They could not only not pay the contribution to the general revenues; they could not even pay the interest due on the Capital at charge from 1931 onwards. In 1932, the services of a British railway expert, Mr. Pope, were obtained to suggest economies. He recommended "job analysis" to be carried out on the main railways' activity everywhere in India and abroad, to attract tourists to places of historical, religious, architectural and natural beauty interest served by the railways and to provide all kinds of amenities for travellers. To increase goods traffic a scientific study of exports and imports and rates and fares was proposed.

At Mr. Pope's advice many other steps were taken to improve the finances of the railways during the years of depression. For instance, in areas of great motor competition, cheap single and week-end return tickets were introduced; street collection and delivery of parcels was arranged in big cities and freight rates for goods were reduced. Special "pilgrim trains" to tour to places of religious worship for different communities in India were run while special concessions were offered to sports teams and parties of tourists. The railways also pooled their resources in locomotives and mechanical repairs. In fact every effort was made to improve matters.

(*2*) *The Wedgewood Committee, 1937.* Sir Otto Niemeyer, the financial expert, recommended the distribution of half the income-tax realized in a year among provinces in India on the condition that the railways earned enough profits to pay their contribution to the general revenues. Hence the need for a thorough overhaul of the working of Indian railways on the eve of the introduction of the new Constitution was urgent. Accordingly a committee was appointed in 1936 with Sir Ralph L. Wedgewood, Chief General Manager, London and North Eastern Railway, as chairman with two other members. The Committee submitted its report in 1937. Its main recommendations were that

(*a*) the railways should stop paying their contribution to the general revenues and be made fully solvent;

(*b*) the Depreciation and General Reserve Funds of the railways should be increased until they were adequate enough for all purposes;

(*c*) proper steps should be taken to meet the road competition, *e. g.*, speeding up of trains, introduction of bus services, etc.;

(d) more service should be got out of the rolling stock for which more European mechanical engineering staff should be engaged; and

(e) closer contact should be maintained with the Press and traders and business men in the country. For this purpose an information bureau should be organized.

The various suggestions of Mr. Pope to effect economy were stressed and reiterated.

There was a storm of indignation in India at the Committee's recommendation of further Europeanizing the staff and the stoppage of contributions to the general revenues. These were rejected *in toto* by the Assembly and Sir Sultan Ahmad, then Railway Member, assured the House that there would be no tampering with the contributions to the general revenues and no discontinuation of the policy of steady Indianization of railway services.

(3) *The Kunzru Committee.* A Railway Inquiry Committee known as the Kunzru Committee was appointed in November 1946. Due to the partition of the country in 1947 it could not report.

The war had imposed a great strain on the railway system. Traffic had increased without a corresponding increase in rolling stock nor were replacements possible. Movements of food, and the evacuation of refugees aggravated the trouble. Political and communal unrest in the country made matters worse; besides, the railway personnel and assets were divided between the two Dominions. As a consequence the recommendations were not as thorough as they would have been otherwise. The Kunzru Committee recommended the problem of regrouping to be postponed. They also recommended the establishment of a Union Railway Authority in place of the present Board and pleaded for a co-ordination of all kinds of transport under a National Transport Authority.

The Committee found that the efficiency of labour had gone down by 33% to 40% on the average and that a labourer was not doing a fair day's work for a fair day's wages. This was believed to be due to apathy, fear of retrenchment, lack of discipline and inexperienced supervisory staff. The Committee thought that the profit motive as a remedy was not practicable and gave prominence to educational training of labour so as to make the workers give of their best.

11. Railway Rates. In the early days of railway construction in India the Government did not interfere with the Companies in the matter of rates, apart from the fixation of maximum and minimum charges. Each company had its own terms of contract with the Secretary of State. Hence there was a great diversity of rates in the country. In 1887, the Government laid down some principles for the fixation of rates on railways—

(a) The State was to fix the maxima and minima charges, but was to make no further interference as that would hamper trade.

(b) The State was to be on the lookout that no undue preference was shown by the railways to particular persons or bodies.

Attempts were made to bring about a uniformity in the classification of goods for freight charges but they did not succeed. Discrimination in favour of foreign imports and European business men was persistently complained of by Indian interests. Such complaints were voiced frequently in the Legislative Council as well as before different committees like the Industrial and Fiscal Commissions and the Acworth Committee.

At present in India commodities are divided into 16 classes and maximum and minimum charges fixed for their transport. The railways cannot infringe these charges without previous sanction of the Railway Board. These range between 0·38 p. and 1·87 p. per md. per mile.

The fixation of minimum charges is a unique feature of Indian railways. No other country has it. This is because the State having guaranteed a certain amount of interest to the Companies, did not want their interests to suffer from reckless competition.

The charges on Indian railways are not at all high and compare favourably with the charges on railways in other countries as is evident from the following table :—

In centimes[1]

TABLE IV[2]

Country		Passenger Kilometer	Average Receipt per ton kilometer
Germany ...	...	2·96	4·32
Great Britain	...	2·39	4 83
France ...	...	2·41	4·49
Canada ...	...	3.98	1·84
U. S. A. ...	...	3·69	1·84
India ...	...	1 25	2·50

Defects. Discrimination against Indian manufacturing interests was one of those reasons which led to a demand for State management in preference to company management.

Another complaint against the railways has been that the system of fixing rates in India is "discontinuous." If goods travel on two lines, the rate is not calculated on the through-distance, but on the distance travelled over each line separately.

The Acworth Committee recommended a Railway Rates Tribunal similar to the one created in the United Kingdom by the Railway Act of 1921, on the ground that there was a great discontent in India due to the alleged discriminatory rates, but the Government did not see their way to implement the proposal. The Government felt afraid that the decisions of an independent Rates Tribunal might interfere with their financial interests. They only created a Railway

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[1] Centime is 100th of a franc. 175 francs could purchase £1.

[2] Report of the Wedgewood Committee.

Advisory Committee in 1926 with very limited powers. This body has neither been very useful nor popular.

Railway Rates Tribunal. It was stated by the Transport Member in March 1949 that "a new Railway Rates Tribunal will start functioning shortly." This will provide a more satisfactory machinery to decide disputes in connection with rates and will go a long way to satisfying the public that their complaints regarding differentiations in rates and charges will be decided by an impartial authority.

12. Railways To-day. The Railways have to face and solve a number of complex problems which are briefly mentioned below :—

(1) *Effects of War.* Traffic in goods and passengers has increased without a corresponding increase in rolling stock while replacements have been held up due to non-availability of material. A very large number of locomotives and wagons are overage. Spare parts are also not obtainable.

These difficulties have been aggravated by new and inexperienced personnel appointed to cope with the increased work. Shortage of food, demobilization and movement of surplus war materials have made conditions worse. The war in Kashmir and the Hyderabad police action have added to the difficulties.

(2) *Effects of Partition.* On top of it came the partition which brought about severe communal unrest. This resulted in serious shortage of essential workers in particular categories. Skilled technical staff opted out to the other Dominion. This added to the inefficiency and corruption. There was a loss of well equipped workshops like the Moghulpura and Kanchinpura and a further division of assets which meant a deterioration of resources. A large division of traffic ensued due to the loss of Karachi. Goods had to be moved along routes which were not equipped to deal with so much traffic as Bombay was the only port of arrival.

(3) *Regrouping of Railways.* There is the problem of grouping. Amongst the 9 units of Railway Administration in existence, the route milage varies from 1,231 on the Assam Railway to 4,457 on the East Indian Railway. Their operation ratios vary widely and some of them are living on the others The present geographical distribution is a haphazard growth and needs revision.

India is now one. There are no more free States as existed in British India. It is mostly essential that railways in Indian States should now form a part of the main railway administration in the country.

(4) *Transport Bottlenecks.* There are bottlenecks in railway transport. The railways cannot carry all the traffic offered. Hence a Rail Priorities Organization has been set up to determine national priorities and to programme movements of food, steel, textiles, cement, etc. Efforts are being made to carry full train loads, to speed up goods trains and to quicken the turnround of wagons. Orders

have been placed in the U.S.A., Canada, and the U.K. for all kinds of locomotives (863 in 1949). More wagons (over 4,000 in 1949) are being placed on the line every year. Track is being improved and in some cases doubled. But there are large arrears of locomotives and rolling stock to be made up and it will take time to replace them.

(5) *Ticketless Travelling and Corruption.* The problem that worries the ordinary man most is that of over-crowding. While the number of passengers has doubled itself since 1939 the train capacity has fallen to 85 per cent[1]. Another factor is the huge ticketless travelling, particularly in the U P. A complement of railway magistrates and police has been appointed to check the evil. Conditions are improving in this direction.

A special scheme has been evolved by the Railway Board to coordinate Police and Railway administrations for detection and investigation of cases of bribery and corruption. Thus by the end of December 1948, a large number of cases was investigated and action taken.

(6) *Labour Problems.* Railways constitute the biggest nationalized industry in India with a capital at charge over Rs. 123 crores and over eight lakhs of personnel It should be so administered that the labourers employed are contented and render best service to the community. With a national Government at the helm of affairs it is seen that an all round programme of labour welfare is being taken in hand and all kind of amenities such as hospitals and dispensaries, maternity and child welfare centres and schools and institutions are being opened. The Central Pay Commission scales have been accepted and dearness allowances awarded. Staff getting less than Rs. 250 per mensem has been given the option of having cheap grain-shops in place of dearness allowances.

In spite of these amenities it is seen that there are subversive elements amongst the junior staff who are being wrongly guided towards strikes and threats' mainly by political leaders working for their own nefarious ends, which is regrettable.

(7) *Amenities to Class III Passengers.* Efforts are being made to improve conditions of travelling for lower class passengers. Intermediate class has been abolished from 1st January, 1949, and broader seats and ceiling fans are intended to be provided for Class III passengers. Social guides are being appointed to guide them. It has been decided to provide special compartments and reserve seats in them for long-distance Class III passengers travelling more than 300 miles.

13 Post-war plan for Railways. It is impossible to make any estimate of the development of railways in the near future until the post war plans of the Government in regard to trade, industry and agriculture are complete. Still it is an open fact that the Government of India have put reconstruction plans of railways on a practical basis. The basic plan aims at the following objectives—:

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[1] Mr. J. Mathai—Budget speech for 1948-49, p, 9.

(*a*) Rehabilitation and replacement of locomotives, wagons and other equipment worn out during war-time.

(*b*) Establishment of factories to manufacture boilers and locomotives in India. The Mihijan (Chittaranjan) Workshop on the E. I. Railway is being built up to manufacture boilers and locomotives.

(*c*) Improved services for goods and passenger traffic.

(*d*) Extension of railway activities to other transport services —road, air, etc.—either through actual operation or by acquiring an interest in them and running them through public utility corporations consisting of the Central Government, provincial Government and private interests.

(*e*) Providing special amenities for lower class passengers both in trains and at railway stations.

(*f*) Regrouping of railways in the light of State ownership. This would also evolve a new rates structure and remove the discontinuity in the rates due to different lines having been owned and run by different companies in the past. One gauge standard is recommended for the whole of India.

(*g*) Construction of 5,000 miles of new lines in undeveloped areas.

(*h*) Absorption of demobilized army personnel and development of staff welfare organizations to improve the conditions of railway employees.

This will need an expenditure of Rs. 319 crores in seven years out of which Rs. 125 crores will have to be met out of the Depreciation Fund leaving Rs. 194 crores to be raised by loan.

CHAPTER XXII

TRANSPORT IN INDIA—ROADS

1. Benefits from Roads. The main advantage offered by road transport is its flexibility. Motor lorries and buses can easily collect and distribute loads from door to door and pick up and put down passengers anywhere needed. Railways are fixed to their tracks and cannot undertake this kind of work. A road transport company can easily try new routes and ply its vehicles where it gets better customs. It does not need much capital to start a concern of this type nor does it need much traffic to earn fair dividends.

Rural areas cannot possibly be served by railways as the distances are small and traffic insufficient. What is needed is a network of roads to reach the railheads. These roads will not only serve the villages, but will supplement the railways and add to their income.

In 1946, the total number of civilian motor vehicles on roads in India (excluding States) came to 1¼ lakhs of which 50,000 were buses and lorries. This means one motor vehicle for every 2,017 inhabitants, against 2 vehicles for one person in the U.S.A. and one vehicle for every 15 persons in the U.K.[1]

It must not, however, be forgotten that India has a large number of bullock-carts, "about six million in all, of which four million use roads."[2] They are very useful for small distances. If they were equipped with pneumatic tyres (with subsidized help from the Government) it would appreciably reduce the period of time a journey takes, increase the carrying capacity of the carts, as well as save the roads from immense wear and tear. With better roads the transport cost saved would amount to some crores of rupees a year, as the difference in the cost of operating a motor vehicle on a good and a bad (kutcha) road ranges between 18 pies to 24 pies per mile.[3]

In addition to the beneficial effects on agriculture, improved roads and quicker transport would help in the decentralization of industry. This is an urgent requirement taking in view the vulnerability of seaports from foreign air and sea attacks, and the great congestion in labourers' residential areas in big cities.

Roads would quicken the mental and moral advancement of the country, by bringing the villager to school and college and

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1. Antia Transport (Oxford).
2. Dr. Sen—Reconstruction of India, p. 402.
3. The Hon'ble Mr. R. H. Parker—Commerce, December 1942.

creating in him the will to improve. It should be remembered that contact with the outer world is in itself an education. A villager after a visit to a neighbouring town is no less than a Socrates for knowledge and wisdom. A knowledge of better things creates a desire to get them and acts as an incentive to improve the standard of living. Roads bring an improvement in the health of the villager and his animal, as they give him easier access to doctor and hospital. They result in more postal services in the country and equalize prices. More post-offices result in increased thrift and saving.

The system of transport is unbalanced at the present time. The Road Development Committee stated in 1928: "It is indeed somewhat incongruous that the total milage of surfaced roads in British India is only 59,000." Even today the same incongruity persists. With more roads to link up the centres of production with those of consumption, the village will have greater security in life and property. Good roads will reduce the strain on draught animals and make them more efficient for the cultivation of land.

It will be possible to transport the perishable produce of the village to town and to get rid of the large numbers of parasitical middlemen who eat away the profits of the cultivator-seller. Co-operative regulated markets are possible only with the development of roads.

2. Roads in India compared with those in other countries. Roads in India were not built on a comprehensive plan. They were built for military and strategic reasons as were the old Roman roads. They were mainly trunk roads and the earliest of these was built by Sher Shah. The main roads today connect Peshawar, Calcutta, Delhi, Bombay, and Madras. They were "marching roads"—to march soldiers to the point of danger. This is the reason why they were put in "the charge of military boards, one for each presidency" till 1855, when they were given over to the Public Works Department to manage.

Today India possesses 95,000 miles of metalled roads, cemented, bituminous and macadamized, and 2,01,000 of unmetalled (kutcha) roads. The total milage of 300,000 is too little for a country of India's size and population. Out of this milage only 1,26,000 miles are motorable throughout the year. The following table will show how inadequately India is equipped with roads as compared to other countries :—

TABLE[1]

Country		Road-miles per square mile of area	Road-miles per 100,000 of population
Japan	...	3.00	684
The U. K.	...	2.00	277
France	...	1.89	1,392
Germany	...	1.19	565
The U. S. A.	...	1.00	2,853
British India	...	0.18	142

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1. Report of the Royal Commission on Agriculture.

Roads in India, metalled and unmetalled, are too few, both in regard to area and population. The worst served areas are those that are either too arid and thinly populated or too rainy and jungly with unbridgeable gorges and streams.

3. **Defects in the Road System.** After 1855, when the roads came in the charge of the P.W.D., the influence of railways on the construction of roads began to make itself felt. As the railway system extended, it became increasingly necessary to build roads to feed the railways rather than to compete with them.[1] In spite of this, however, "30 per cent of the metalled roads in India are parallel to railways and 48 per cent of railways have metalled roads parallel with them or within 10 miles."[2] Such is the tragedy of roads in India which were built not with an eye to the economic advancement of the country. The Government of India were more anxious to build railways in the last century ; in 70 years no less than 37,000 miles of railways were laid (a fine achievement) while roads were generally neglected till recently. This has been in spite of the fact that highway is the first link in the production and distribution of agricultural commodities. Unless there are roads to link the rural areas with markets the barest subsistence cultivation will be carried on by the people. Lands will lie fallow and perishable produce will run to waste. Improved roads could convert all this waste into wealth but senseless competition with railways should be avoided at all costs in any future construction of roads.

4. **Road Finance.** The construction of roads depends on the nature of the soil and configuration of land. The severity of ther sun and rain and the possibility of floods and seepage of watee have important bearing on the cost of construction. Where labour is cheap, kutcha roads should not cost much. Free corporate labour of villagers might be utilized for building local roads, the material and tools needed being supplied by local Government authorities. At other places machines like a Caterpillar Tractor and a Triple Roller at an initial cost of some thousands of rupees would be able to maintain kutcha roads at a very low cost. Most of the roads in India are kutcha and would remain so for long years to come. They are the responsibility of the District Board authorities who are poor and ill equipped. To improve and enlarge roads they need generous susidies from the provincial and Central Governments.

Road Development Committee, 1927. It was realized that roads were altogether insufficient in India. Accordingly a committee consisting of 14 members and presided over by Mr. Jayakar was appointed in 1927 to examine the question of road development. The Committee stated that roads in India were becoming a national interest and as such should be the responsibility of the Centre. They argued that the income that resulted from roads in the shape of customs and excise duties on petrol and motor vehicles went to the Central revenues. The additional petrol duty also benefited them. It was, therefore, reasonable that the Central Government should not only build arterial roads but maintain them and release local and provincial funds for local roads.

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[1] Report on Agriculture. p. 370.

[2] Railway Enquiry (Wedgewood Committee) Report

The Committee also suggested that railway funds should help in the construction and maintenance of roads which would feed and supplement them. The Agricultural Commission had suggested loans for road development but the Road Development Committee did not favour heavy loans for roads as they were afraid that these loans might prove an incubus for other nation-building activities of equal or greater importance. The Central Legislature approved of loans for road building in 1934 on the recommendation of the Rail-Road Conference.

The Road Committee recommended an increased duty of 2 as. per gallon on all petrol. The Government agreed to the proposal and a Convention was accordingly adopted in the Assembly in 1930. The additional duty was imposed in the first instance for 5 years. The proceeds from this duty were to be accumulated in the Road Fund and grants made out of it annually to different provinces in proportion to their consumption of petrol while 10 per cent of the duty was to be kept in reserve for special grants for expensive works. A Standing Committee for Roads was to be constituted every year out of the members of the Central Legislature for advising Government on all matters concerning roads as well as recommending grants to be made to provinces.

The Road Fund or Account was put on a permanent basis in 1934. Usually a crore and a half of rupees were credited to the Fund in a year. Allotments were made to different provinces every year. Up to the end of March 1945, the Fund had received Rs. 22½ crores. After transferring Rs. 4·4 crores to the Reserve, Rs. 12·8 crores had been distributed to the Provinces, Rs. 2·2 crores to the States and Rs. 67 lakhs to the Minor Administrations.

As the railways were facing severe competition from motor traffic, the Legislative Assembly passed a resolution in 1937 that if any province failed to put into operation steps recommended by the Governor-General to control and regulate motor traffic, the share in the income-tax of that province might be resumed by the Governor-General. The same would be the fate of the province's share if the Provincial Government delayed unreasonably long in spending it. There is, however, not much fear for a clash over this between the Central and provincial Governments as Sir Otto Niemeyer has made the prosperity of railways an essential condition for distribution of income-tax among the provinces.

5. Roads Administration. Roads are a provincial subject and may be divided into provincial and local roads. About 1,78,000 miles of roads are maintained by local bodies while the P. W. D. and M. E. S. maintain 48,000 miles. In addition there are more than 18,000 miles of roads maintained by municipalities.

With effect from 1947 the Central Government have accepted the liability for the construction and maintenance of roads classified as National Highways (that is, such main roads as run through the length and breadth of India and connect major ports, cities and capitals including strategic roads needed for the defence of India). There are about 14,000 miles of such roads in the Dominion of India after partition. The Government have laid down the condition that no tolls or taxes will be levied by provinces and that the provincial Governments will take special care to foster development of district and village roads.

Obviously the provision of road funds is a very cumbrous process. The finances come from a variety of sources : (*i*) through petrol tax collected by the Centre ; (*ii*) motor vehicle taxation by provincial Governments ; (*iii*) allocations from funds of local boards ; and (*iv*) loans. This is defective as enough funds do not come forth.

6. Rail *vs.* Road Competition There is no doubt that road transport is considerably cheaper than railway transport. It does not need huge stations and expensive staff. The cost of building and maintaining roads is largely defrayed by the tax-payer, not the owners of motor vehicles. Besides, the road-hauliers are small people, not conversant with correct accountancy practices Hence the rates they quote are often uneconomic and irresponsible. The Depression that hit India with the rest of the world in 1929 resulted in a great deal of traffic being diverted from railways to roads so much so that the railways could not earn enough to pay the interest on capital at charge or their annual contribution to the general revenues. The Government was, therefore, compelled in 1932 to appoint the Mitchell-Kirkness Committee to conduct an enquiry into the rail-road competition. The Committee reported in 1933 and recommended a stricter regulation of motor traffic as one of the measures to remove the competition. They also suggested the creation of a Central Advisory Board of Communications. Accordingly in 1935 a Transport Advisory Council consisting of the Minister in charge of roads in the provinces was formed. A new Department of Communications was also created as had been recommended by the Acworth Committee and later by the Road Development Committee The new department was put in charge of railways, roads, waterways, aviation and posts and telegraphs.

In 1937, the Wedgewood Committee also considered the rail-road competition problem and recommended protection of railways against the unfair competition of roads by controlling, supervising and licensing motor vehicles. They also stressed the importance of railways participating in road traffic.

The Motor Vehicles Act was passed in 1939. Its objects were the control and co-ordination of road traffic. Regional Transport Authorities were to be constituted in each province to control motor vehicles which were to run under permit to carry no more than the prescribed number of passengers or load, to run within fixed speed limits, and to work not more than 9 hours a day or 45 hours a week. After June 1943, all motor vehicles were to be insured compulsorily for third party risks. Any infringements of the above regulations were visited by big fines. This Act is a very important piece of legislation and codifies regulations for the safety and comfort of passengers and goods. It has been deservedly styled the 'Highway Code' for India.

7. **Co-ordination the only remedy.** Co-ordination means adjustment of different kinds of transport facilities to public needs eliminating in the process unnecessary duplication and consequent waste of time, money and energy. There is ample room for both roads and railways as well as water and airways in this country. They must work in harmony for the good of the country. Voluntary co-ordination is impossible from the ver y nature of the thing. Wholesale nationalization of all transport services is also impossible in the present set of circumstances. The only feasible alternative left to be adopted is statutory regulation of transport services in India so that they do not overlap each other and work in their own spheres. Unfortunately transport services have had a haphazard growth without a plan, so it is not an easy job to fix them to their spheres.

Efforts at co-ordination. In order to stop the ruinous competition against railways the Central Government enacted the Motor Vehicles Act to regulate and control motor traffic. (The terms of the Act have been given in the last chapter.) The provinces had adopted a *laissez faire* policy which gave India an unorganized and inefficient type of road transport. This policy, as the Wedgewood Committee remarked, was giving India "the worst of both worlds—unprosperous railways and inadequate roads". It is not certain yet whether the Motor Vehicles Act will protect the railways against unfair competition. If not, further steps will have to be taken to strive for the "unattainable"[1] perfect co-ordination.

The Motor Vehicles Act is expected to eliminate the unfair competition against railways and incidentally to safeguard the life and property of the passengers and make road travelling more comfortable. At the recommendation of the Wedgewood Committee the railways started participating in road transport and opened motor out-agencies at railway terminals to hill stations where they did not go. Speeding up of trains, running of frequent diesel coaches, and provision of amenities for lower class passengers would help the railways to meet road competition. Cutting down of expenses by retrenchment of unnecessary posts, progressive Indianization and lower grades of pay in the higher cadres would also assist.

8. **Spheres for Different Transport Services**. So far nothing has been done to define the spheres of different forms of transport. The achievement of lasting success is impossible without that. Railways can carry bulky goods and long-distance passengers at

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[1] Wedgewood Railway Enquiry Committee.

cheap rates; while motor vehicles will transport goods of a perishable nature and passengers for short distances. As far as possible motor transport should be made to confine itself to running on feeder roads; otherwise as Sir Guthri Russel said, "If motor lorries are allowed to carry the highest rated goods, or to skim the cream of the traffic, the result must be a raising of other rates." Regional Transport Authorities in different provinces should issue licences on the zonal system, so that public vehicles run only on prescribed roads.

The War Transport Department has been followed by a Communications Department. This department looks after the development and co-ordination of all forms of transport. Railways are, no doubt, a Central charge while roads are a provincial one. In the long run their interests are the same, though they might seem to clash occasionally. The Central Government have undertaken the liability of building and maintaining National Highways and left the provinces to construct feeder roads in the districts.

It is not suggested that railways should be bolstered up but they are a valuable national asset with an investment of over Rs. 700 crores. They must remain solvent and at the same time provide all possible conveniences to passengers. If they are involved in deficits, the additional burden will fall on the tax-payers. To allow cut-throat competition between roads and railways and have the latter ruined would be cutting one's nose to spite one's face. It is essential to make them complomentary to avoid waste. There is an urgent need to expand roads as has been proved already but the new construction should help railways rather than compete with them.

9. The Zoning Scheme of Co-ordination. To meet India's growing needs of agriculture and industry a systematic development of her transport lines is needed, but this can be done only after the problem of co-ordination has been tackled successfully. To solve this problem the Government of India have promulgated a rail-road co-ordination scheme "which aims at unified control of transport and its development" with a view to preventing the pre-war unregulated cut-throat competition, to stop rate-wars between roads and railways, and to eschew unnecessary duplication of services.

The method adopted is the formation of joint companies in which the road operators, railways and the provincial Governments will be shareholders in fixed proportions. This scheme has been already given effect to by some provincial Governments. The Government of India have passed the Road Transport Act, 1948, empowering provincial Governments to incorporate, regulate and, if necessary, wind up Transport Corporations.

Zoning will reduce wasteful competition and bring about rail-road co-ordination and has many points to commend it. The fear that it might smother the healthy development of road traffic and bring about domination of road by railways is largely misplaced. An alternative suggestion put forward by the India Roads and

Transport Development Association also deserves consideration. The Association recommends the revision of railway rate structure by increasing the rates on heavy traffic and reducing those on light goods. This will certainly enable railways to compete against motor traffic to a certain extent but will not be effective enough to meet the situation.

10. Roads during the War. On both the eastern and western frontiers of India there was a considerable expansion and improvement in roads. Assam and the hills bordering on Burma have had a network of roads laid for carrying military traffic. A road on the N.-W. Frontier connecting Pathankot with Jammu was built to render military help to Kashmir against Pakistan. The cantonment area roads were improved and expanded all over the country to train army drivers.

There was a great reduction in civilian traffic due to (a) petrol rationing ; (b) sale of motor-cars and lorries to the army for training purposes ; and (c) fall in the imports of motor vehicles from abroad. Efforts were, however, made to find alternative sources of power to replace petrol. Producer-gas was found to be fairly useful and designs for the construction of producer gas plant were supplied to the factories producing them. It was estimated that 1,000 motor vehicles converted to the use of producer-gas could save 1½ million gallons of petrol in a year. By 1945, 25,000 vehicles were converted to producer-gas at a total cost of Rs. 3 crores and giving a saving of 30 million gallons of petrol a year.

11. Roads in Post-War Times. The importance of the development of roads for the trade, industry and agriculture of India in the future has been sufficiently stressed. The Hon'ble Mr. Parker writes: "If India is to progress towards greater prosperity, the first essential is the provision of an adequate network of roads." The Government seems to be alive to the problem. On 31st July, 1943, the Consulting Engineer to the Government of India placed before the Standing Committee for Roads information about steps taken by the Government about post-war planning for India.

In 1944, an ambitious and comprehensive 20-year plan was promulgated by Sir Mohd. Usman, the then Member for Posts and Air, for 400,000 miles of new roads in the post-war period. The proposed financial provision is as follows :—

(1) National Highways	Rs. 47 crores	22,000 miles
,, trails	,, 5 ,,	3,000 ,,
(2) Provincial Highways	,, 21 ,,	65,000 ,,
(3) District Roads (major)	,, 62 ,,	60,000 ,,
,, ,, (other)	,, 80 ,,	100,000 ,,
(4) Village ,,	,, 30 ,,	150,000 ,,
Arrears of war years	,, 10 ,,	
Bridging	,, 45 ,,	
Land acquisition	,, 50 ,,	
Total	450 crores	400,000 miles.

Complete integration was planned to assure communications between urban and rural areas. It was visualized that India would have an efficient road system within 20 years. The partition of India, however, dealt a severe blow to all these plans which were laid under different conditions. Inflation and soaring prices have stood in the way of quick expansion. Still the Government of the Indian Dominion have announced their intention to undertake the construction of 13,000 miles of national highways. They will plan and control the national highways which will link provincial capitals and also design and site the major bridges. The other three kinds of roads will have to be developed by the provinces, but such development will be co-ordinated and controlled by the Centre.

There are many gaps within the network of railways which only road transport can fill. Motor transport will serve the rural population as well as trade and industry in the country. It will penetrate into the remotest villages and connect them with the main transport system and develop marketing of fruit and vegetables.

India has, however, very few motor vehicles compared to her vast needs. Progress of motor transport is not possible till India establishes motor-car factories for herself. Two joint stock companies, Hind Motors and Premier Automobiles, have been floated, but so far (1949) the progress has not been quick enough. India has all the raw materials needed—steel, leather and rubber. Strict Government controls and a heavy import duty will also help the growth of motor industry. The only important thing lacking is trained technical skill. This is why contracts have been made with foreign motor concerns, like Chryslers, for help. Indian factories should not be mere assembling concerns, but should gradually make spare parts, machines and engines.

CHAPTER XXIII

TRANSPORT IN INDIA—WATERWAYS AND AIRWAYS

1. **Waterways.** Transport on water has a long history behind it. The Phoenicians and Romans carried on trade for thousands of years in oared galleys. Indians and Arabs distinguished themselves as carriers and traders in old times. Water has always formed a great highway for trade. It is cheap; it needs no special expenditure on docks and quays.

Indian waterways transport is of two main kinds: (*a*) river transport and (*b*) Coastal or Marine transport.

2. **River Transport.** This is perhaps the oldest and cheapest kind of transport. It does not need a permanent way. It does without signals and stations. Navigation canals, artificially constructed, stand in need of locks and lifts but they are nowhere so expensive as railways Water transport is useful for the carriage of bulky and heavy commodities of low grade, like coal, timber, raw ores, etc. Cost of transportation of these on water is very low indeed.

Water transport suffers from the drawback of slowness of speed. Configuration of the country also interferes with it. For instance, the rivers in South India are no good for navigation purposes except in their deltaic stage where, however, the canals are important highways for traffic. In their earlier stages, rivers move through difficult country which makes them unfit for any kind of transport. The rivers in Northern India are navigable for hundreds of miles inland. In Bengal and Assam, the Ganga and its tributaries, and the Brahmaputra are navigable for thousands of miles. The Indus and the Chenab were fine streams capable of carrying boats and ships for long distances but they are in Pakistan now.

3. **Comparsion with Foreign Countries.** Many countries in the world have a well-developed system of inland water transport. The U S.A. and Canada have fine systems of lakes and rivers linked together by navigation canals. The lowland of North France, Belgium and Holland have a fine network of canals linking up the navigable rivers. It is possible to travel from the Mediterranean sea to the English Channel or to Bordeaux by water. In France no dues of any kind are charged for use of canals. Germany, too, has a thoroughly planned system of navigation canals used for carrying large quantities of bulky goods. England's rivers are navigable, but her canals have been ruined by the competition of her railways.

Indian rivers in the North have sufficient water throughout the year to carry heavy boats. They were largely used for transporting passengers and goods in Hindu and Muslim times. In British times they have been neglected, because the State is vitally interested in railways. The competition from railways has reduced transport on rivers to the barest minimum. There is ample scope for the development of both railways and waterways in a vast country like India. The Industrial Commission pointed out in 1918 that "the vested interests of the railways have prevented waterways in India from receiving the attention that has been given to them in other large countries with satisfactory results." Many examples of the unfair competition offered by railways to waterways were laid before the Acworth Committee who suggested an enquiry into the the matter.

With the heavy pressure laid on railways by the present war emergency, the War Transport Department is trying to develop alternative means of transport. Measures should be adopted to—

(*a*) improve the navigability of rivers,
(*b*) construct new artificial waterways, and
(*c*) progressively use steamers, tugs and power-driven barges in addition to country craft.

It will have to be admitted, however, that the main obstacle in the way of the development of Indian waterways is their own condition which has in cases deteriorated due to the opening of irrigation works. As far as possible irrigation canals should be usable for navigation purposes too.

4. Marine (Coastal) Transport. In the past there was uncontrolled competition between railways in India and coastal traffic. The National Government is now wide awake to the need for zoning traffic and a proper development of coastal traffic is expected.

India had a sea-board of over 40,000 miles and a vast foreign trade of over Rs. 600 crores in normal times before August 1947. And she had no more than 1½ lakh tons of shipping to shoulder the burden. This came to a bare 0 24 per cent of the total world shipping as against the U. K., the U S A. and Japan's 25 9, 17·29 and 8·1 per cent, respectively This was mainly due to the fact that the Government of India had always offered a cold shoulder to the growth of Indian shipping. The Government found it impossible to render any help as they felt afraid of British shipping interests suffering from Indian competition.

Even now the coastal trade is mainly in the hands of foreign countries, especially the U K. The Indian share is very small, barely 25 per cent. All countries that can boast of a position in the maritime countries of the world have had to reserve their coastal trade against foreign shipping. British Navigation Acts were in operation not so long ago. The U.S.A., Japan and Australia are no exception in this matter.

5. Efforts to Improve Conditions. The Indian Mercantile Marine Committee in vain recommended the reservation of coastal waters to Indian shipping in 1923. Mr. S. N. Haji's Coastal Reservation Bill could not become law nor did his Bill for the Abolition of Deferred Rebates meet with any better fate. Sir Abdul Halim Ghaznavi's Coastal Traffic Bill, which only wanted to regulate unfair competition, was also shelved as being "unnecessary and likely to promote a mania for shipping companies." Before the war the Government felt anxious at the competition offered by Japanese and German ships in Indian waters and were proposing to legislate against them when the war intervened. The recommendations of the Mercantile Marine Committee made with a view to create and encourage an Indian marine were turned down by the Government except the provision of a training ship (*Dufferin*) at Bombay for training Indian cadets.

During the recent war, the Royal British Navy having its hands full in the other theatres of war, the vulnerability of India's position was glaringly revealed. Millions were starving in Bengal, and India had no adequate shipping of her own to transport food supplies for them and had to let them starve. The Government of India realized the gravity of the situation and pledged themselves to a policy of assisting in the development of an Indian mercantile marine. The Government appointed a Reconstruction Policy Sub-Committee which submitted its report in April, 1947. It recommended a strong national policy of shipping and fixed a target of 6 lakh tons gross by 1950 and 20 lakh tons in the long period. They advocated that India should secure cent per cent of her coastal trade, 75 per cent of her trade with Burma and Ceylon and 50 per cent of her overseas trade.

6. **After Partition.** Since August, 1947, when India became an independent dominion, the Government have been making strenuous efforts to improve marine transport In a year and a half the gross shipping tonnage has increased from 1½ lakh tons to 3 lakh tons. A fully equipped dockyard has been built at Vizagapatam which has turned out *Jal Usha* and *Jal Prabha*—two steamships of 8,000 tons each. More are under construction Plans are being made to set up three shipping corporations with a capital of Rs. 10 crores each, Government subscribing 51% of it or more if needed [1]

India has now a coastline of over 2,500 miles in length, but the number of seaports is small. Ninety per cent of India's sea-borne trade is centred in the four ports of Calcutta, Bombay, Madras and Vizagapatam. With the loss of Karachi after partition, there is no big port along the 1,000-mile-long west coast left to serve a vast hinterland. So Kandla and Okha have been selected to be converted into major ports. They are natural sheltered harbours. Kandla has over 30 feet depth of water and is best suited to replace Karachi. It is only 656 miles from Delhi. Vizagapatam on the east coast has a great promise in the future, while Okha lies in a strategic position on the extreme point of the Kathiawar Peninsula readily accessible to large ships in all seasons of the year.

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[1] Costs of constructing ships in India are much higher than in England. To encourage the industry Government will have to help with subsidies. She will also have to come to the rescue of Indian shipping companies at a time when rebate wars are opened as happened in April 1949 when the Dutch started such a war

7. **Aviation in India.** Flying began in India in 1911 when a few exhibition flights were given at different places. The war demonstrated that India had a fine geographical position as a link between Europe, the Far East and Australia. The real progress in civil aviation began in India after World War I, but the Government of India was inert in the matter and provided only a few landing grounds for foreign aviators. In 1927, the Civil Aviation Department was formed, civil aerodromes were established and Flying Clubs founded. In 1929, India was linked with London by a regular weekly air service. In 1932, Internal air services were opened to Allahabad, Calcutta and Colombo by Tata Airways Ltd. The Indian National Airways Ltd. was established in 1933. The Indian companies got contracts for carrying mails. In 1938, there were nine external air services operating every week across India and providing direct air communication between India and Europe, Africa and Australia. During 1948, 15 lakh air-miles were flown.

With the outbreak of World War II the development of aviation in India was remarkable. The civil companies had to give up their normal traffic and had to cater to the defence services. More aeroplanes were purchased, new services were started and their frequency was increased. An aircraft manufacturing factory was started at Bangalore for the mass production of aircraft. At the end of the war, India possessed a very large number of aerodromes scattered all over India.

The following comparative figures of air transport statistics will indicate the rapid strides that civil aviation has made in India during the past two years ending June 30, 1948.

	July 1946 to June 1947.	July 1947 to June 1948.
Miles flown (in millions)	7·5	10·6
Passengers carried (in thousands)	189	315
Freight (in million lb)	2·3	6·2
Mails („ „ „)	1·4	1·3
Total Load including Miscellaneous	10·9 million ton miles	17·1 million ton miles

The war gave India an opportunity to create a number of air squadrons daily increasing in number. A good deal of propaganda was carried on in colleges in India to secure recruits of the right physique and qualifications. Lord Linlithgow came to the conclusion in 1943 that the Indian Air Force was expanding rapidly into a formidable weapon. The strength of the Indian Air Force has been rapidly increasing after the partitions and rightly so. A strong air arm and an effective navy are urgently needed for maintaining India's liberty.

The Future of Civil Aviation. A movement is afoot in the U. K. to press the British Government to take action to adopt a concerted British Empire scheme to provide a virile, up-to-date and highly organized air system and to create an Air Board with representatives from the Dominions. It is realised that another world war may be kept back through the development of air power. India must be a great airfaring country for safety's sake. The importance of civil aviation in this direction cannot be exaggerated.

The Federation of Indian Chambers of Commerce some time ago passed resolutions pertinent to the point in question. They wanted that the Government of India should see that in the internal air services the ownership, control and management of each air concerns as were licensed or given subsidies, should be Indian; that Indian interests were not sacrificed for the development of international aviation; that adequate facilities were provided for the training of Indian pilots; and that India was not excluded in any future Empire training schemes as she was in the Canada scheme.

Another step in the right direction was the erection of a full-sized factory equipped with all the latest machinery from the U.S.A. to manufacture aeroplanes at Bangalore. This was meant to provide not only employment for some thousands of skilled workers and technicians but also to stimulate the growing aluminium and other ancillary industries in the country. The factory was taken over by the Government for military reasons and was used to repair planes and assemble parts. So long as provision is not made for the production of aero engines in the country, Government planning for the development of civil aviation in India will remain incomplete in one very essential matter. Nationalist opinion can not be satisfied merely with the construction of aerodromes without aircraft.

Ground engineering is another important desideratum. It includes the provision of all kinds of facilities as meteorological and wireless stations, night landing facilities, and cement runways with expert ground engineer service.

A yellow paper has been recently published by the Government giving their plans for post-war civil aviation. The air services are proposed to be divided into (1) International services, (2) Trunk Lines, and (3) Feeder Lines.

India has ratified the International Convention on Civil Aviation. The international services will link up with the Indian services at Delhi and Calcutta. India will play its legitimate part in these plans.

The Government of India will take initiative in the planning and organization of the Indian Air Trunk Services which will cover 10,500 miles involving a flight of 7½ million miles a year, through the maintenance of one return service a day between important points in India. In addition to passengers the services will carry mail and freight, the object being to bring flying to the middle classes to make it popular and earn profits.

The feeder lines will be left entirely to private enterprise but no air transport service could be operated without a licence from a Licensing Board which will carefully examine the financial and technical aspects of every scheme.

State aid may be given in rare cases when the operator reaches a better standard of efficiency than the one laid down but cannot reach the target revenue in spite of his efforts to reach the "target operation costs." The principle is unexceptionable.

Schemes have been prepared for the training of technical personnel for aviation, including pilots, engineers, radio-operators and groundsmen.

The Civil Aviation Plan also envisages aerodromes spread over the length and breadth of India. Out of these 91 are already in existence and only 20 more are to be constructed. Seventy-eight will be equipped with night flying facilities. It has been decided to construct these aerodromes so as to serve—

46 cities with a population of over a lakh
29 towns „ „ of over 51,'00 and
36 „ „ „ of less than 51,000.

The only drawback in the Government plan—and this drawback is a material one—is that the Government are not planning for the construction of aero engines and planes in India without which aviation cannot achieve the desired success. Thus it is clear that there are *three* essentials for the successful running of air transport, namely—

(*i*) a sufficient number of airplanes,

(*ii*) properly trained groundsmen and flight personnel, and

(*iii*) a sufficient number of well-equipped airfields. The Government of India are trying to expand its activities in all directions. They have laid down that all mails where possible would be carried by air while the increase in rates has been comparatively small.

CHAPTER XXIV

THE TRADE OF INDIA

The trade of India is of four main kinds : (a) Internal or Inland, (b) Coastal, (c) External or Foreign, and (d) Entrepot or Re-exports of merchandise imported from foreign countries.

A. INLAND TRADE

1. Importance of Internal Trade for India. Ever since the methods of industry, agriculture and transport were revolutionized in Europe, trade between different parts of the world has grown enormously. The Industrial Revolution originated in Great Britain and then spread over to the countries of Europe. Goods were manufactured on a large scale and markets found for them. Thus the raw materials and foodstuffs of Asia and America were imported in huge quantities and manufactures exported to them in exchange. The standard and wealth of European countries advanced rapidly while tropical countries producing primary commodities were left behind, although their lot also improved a little.

To a large extent the same mutual inter-dependence persists to-day. Countries like the U. K. and Japan import raw materials and with their machinery and trained labour convert them into manufactured goods and export them back at a vast profit to themselves. Hence external trade is the mainstay of their prosperity, nay, they depend on it for their very existence. Without raw materials and foodstuffs from abroad they will not only lose their pre-eminent position but very likely their huge populations will starve. Theirs is thus an unnatural, lop-sided economy.

The case of India is different. She resembles the U. S. A. in this respect. Her internal trade is many times larger than her external trade Even if we exclude the movement of goods inside the provinces and States, we find that the volume of her internal trade is more than ten times larger than her sea-borne trade. "She is a land of such vast dimensions, great population and rich variety of production within her own frontiers that she can well afford to work on an ideal of self-sufficiency." India is a sub-continent. She has a huge population and therefore an immense, self-contained market. Her natural resources are vast and varied. It is then reasonable to expect that with the improvement of her means of communication and progress of her large-scale industries, her internal trade should steadily grow in volume.

Unfortunately, the internal trade of India has not received the same attention as her external trade. For one thing the foreign Government in India was more interested in propagating external trade. The Indian railway rates and policy also favoured the latter at the expense of the former. Secondly, India until recently was a debtor country. She had to have a favourable balance of trade amounting to more than Rs. 30 crores a year.

Recently the attention of Indian economists has been drawn to the internal trade of the country. Prof. K. T. Shah has laid great stress on the trade between regional units on a national plane with rationalized production and distribution all over the country[1]. Prof. Naidu says that "a large country like India with its varied potentialities can afford to develop her internal trade and give the external trade a definitely minor place"[2]. Prof. Ramaswamy puts forward planning of food, raw material and manufactures on the basis of a "zonal system"[3] "India has a home market for local producers and manufacturers which, if properly developed, would reduce our dependence on foreign markets to the minimum,"[4] says Prof. Sen.

No statistics are available to gauge the volume and character of internal trade in India accurately. Figures regarding Bank clearances do not provide us with a reliable index of either the value or the extent of the internal trade of India as they do in other countries. Nor are the railway statistics any more dependable for this purpose. The amount of goods carried by railways largely depends on the prevailing conditions of trade and on the competition of road services. Besides we do not know the proportion which the railway traffic bears to the total volume of our internal trade accounted for by all transport agencies including bullock-carts. Hence our estimates of internal trade can only be based on surmises. The N.P.C.'s Sub-Committee on Trade, basing its estimates on Prof K.T. Shah's findings for 1921 22, has come to the conclusion that "it would be safe to assume that our internal trade is not less than Rs. 7,000 crores. This figure may be contrasted with the size of our external trade which is about Rs. 500 crores". This estimate was made in 1940. Since then the effects of inflationary trends on prices, economic controls and other exceptional factors must have greatly changed the total value of the internal trade, but the general outline of the picture as presented by the N. P. C. remain the same. We can safely conclude that judging from various indications such as the consuming capacity of the vast population, the excellent geographical distribution of agricultural crops, forest products, mineral products and allied industries in different parts of the country widely separated from each other and the peculiar triangular shape of India surrounded as she is by high mountains and deep oceans, the internal trade of India is huge in proportion and has vast possibilities.

Some indication of the magnitude of inland trade is given to us by the gross earnings and traffic on railways in India. It is

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1. K. T. Shah—Principles of Planning, pp. 91-92.
2. Industrial Problems of India edited by P. C. Jain, p. 123.
3. Ramaswamy—Economic Problems of India.
4. Sen—Economic Reconstruction of India p. 364.

seen that while less than 4 lakh wagons were loaded on class I railways in the Indian Dominion in August 1947, 5½ lakh wagons were loaded in January, 1949, which is 34% more. Again the number of ton-miles carried increased from 1,232 millions to 1,805 millions in about the same period. The average earnings increased by about 50 per cent from Rs. 12 crores to Rs. 18 crores per month at the same time. This shows that inland railway traffic in the Indian Dominion is rapidly approaching the figures of undivided India.

The accounts for the rail and river borne trade of India also give us a similar idea of internal trade. They show us that in 1938-39 no less than Rs. 900 crores worth of goods passed between the 22 trade blocks in India. During war years the pace of industrialization grew to some extent. In post-war years in independent India, vast plans of rail and road construction have been laid down, As they come into effect, and as the engine and wagon position improves, the internal trade of India is bound to increase at speed. Besides, India is a changed India now. Before the partition there were about six hundred Indian States covering no less than 4 % of the area of the Indian Dominion. Most of them had raised their own customs barriers, which restricted the free movement of goods. Now they have all been either absorbed in neighbouring provinces or have been united into big economic blocks. They have all acceded to India. This step is bound to stimulate internal trade ultimately to heights never anticipated before.

2. Future of Internal Trade. Although complete statistics are not available, yet a fairly accurate opinion can be formed about the increasing importance of internal trade in India. With further *'planned'* development in the means of transport and as a result of improved industrialization internal trade is bound to grow rapidly. The ultimate effects of the policy of protection and industrialization would be a decrease in imports and an increase in the total internal trade of the country. The necessity of having a favourable balance of trade has now disappeared. India has not only paid away her entire sterling debt, but has a huge amount of sterling assets to her credit in London. This foreshadows a greater utilization of raw materials in the country and large purchases of capital goods from abroad as and when available. It is, therefore, essential that our internal trade should be properly planned and developed in the future.

B. COASTAL TRADE

3 Importance. India is like a pendant amongst the continents. Her geographical position and long coastline of over 2,500 miles indicate a big foreign trade and an important maritime position. By rights she should have had a big mercantile marine and a large carrying trade. Unfortunately, being under the political domination of the U. K. till 1947, her overseas trade as well as her coastal trade were dominated by British shipping. In 1939 India had only a lakh and a half gross tons of shipping which was not more than ·2% of the world tonnage. Her ships carried a bare ·25 per cent of her coastal trade. Mr. S. N. Haji and others tried a number of times to move the Government to reserve the coastal trade for Indian interests but their efforts always ended in failure. Due to rate wars and the deferred rebate system Indian shipping companies were not able to make much headway against British and foreign competition. The Second World War at last convinced the Government of India of the urgent need of having a strong Indian navy and a large mercantile marine.

Ports. Although India has a long coastline of 2,500 miles she has very few good harbours. The West Coast ports are closed to traffic due to the violence of monsoon for 3 to 4 months in a year. The Gulfs of Cutch and Cambay and the seaport of Bombay are exceptions. The East Coast is surf-bound. Madras and Vizagapatam are the only two harbours here and are both artificial but offer a safe berth to ships in all weathers. Calcutta is at a distance from the sea and is also handicapped by the sand-bars formed in the Hooghly and have to be constantly dredged out.

To make up the deficiency in ports, specially after the loss of Karachi, the Government of India are trying to develop some new ports. Accordingly, they have selected Kandla, Okha and Mangalore for this purpose. Kandla creek is situated at the east end of the Gulf of Cutch and is a natural sheltered harbour with over thirty feet depth of water It will serve to replace Karachi, being only 656 miles from Delhi. Okha is situated on the extreme point of the Kathiawar Peninsula. It is readily accessible even to large ships at all seasons of the year. Vizagapatam is a major port with great promise. It stands midway between Madras and Calcutta and exports the produce of C. P. It is now the centre of the ship-building industry. Its dockyards can build ocean-going steamers of about 10,000 tons each. During 1948 two vessels of 8,000 tons each, the *Jal Usha* and the *Jal Prabha* were built. There are two in the process of construction.

Shipping. In 1939, India had only 30 ships with a total of less than 150,000 tons gross. This is a pitifully small number when compared with the size of India, its long coastline and its strategic position. The national Government of India has recognized India's weakness in this respect and is trying to rectify this state of affairs as quickly as posible, Private companies cannot command capital adequate for the purpose. Accordingly they have decided to form three shipping corporations each with a capital of Rs 10 crores. These companies will participate in overseas trade. The Government is pledged to subscribe 51% or more of the capital.

They have set a long-term target of 20 lakh tons gross of shipping before them. The tonnage was doubled to 3 lakh tons by the end of 1948 and steps are being taken to increase it to 6 lakh tons by 1950. The Government have also promised to help against rate-wars waged by foreign companies to eliminate Indian competition. It is very necessary, now that India is free, to develop a merchant navy as it will ultimately strengthen the Royal Indian Navy.

C. EXTERNAL TRADE

4. A Historical Review. (*i*) *Trade in Hindu Times.* As far back as some thousands of years before the Christian Era, India had trade relations with Egypt, Rome, Arabia, Persia, China and the Pacific Islands. She exported fine cotton cloth and other articles of great value and small bulk like metalware and perfumes. In return she imported minerals, Damascus blades, Arabian horses, Persian wines and gold. She also traded in Ceylon pearls and China silks.

(*ii*) *Trade in Muslim Times.* In Muslim times, specially under the Moghals, the north-west caravan routes through Kabul and Kandahar came to be largely used while the Malabar coast was the meeting place for trade from the Far East and the Red Sea. During these times the character of Indian trade remained the same as before and the imports chiefly consisted of costly articles of luxury, "the masses being too poor to buy them."[1] Dutch and Portuguese records show us the same trend of Indian trade[2] when she exported fine muslins from Dacca, known as Gangetika in Europe. England was also one of our customers and her fine ladies thought it an honour to be robed in India's fine products. India was a creditor country; her balance of trade and payments were both favourable to her. Her imports in merchandise were less than her exports and gold and silver made up the difference.

(*iii*) *Early British Times.* In early days the East India Company encouraged industries and sent home Indian calicoes and spices, but as the 18th century advanced, the entry of Indian manufactures into England was either severely restricted by heavy duties or prohibited altogether. As the Industrial Revolution got in its stride, India served as a source of raw materials for England and as a market for her manufactures. Thus the character of Indian trade changed entirely and India began to import goods she had previously exported.

(*iv*) *The Beginning of Modern Times, 1864-1914.* The opening of the Suez Canal in 1869 is a landmark in the history of India's foreign trade. It reduced the distance between India and England by more than 5,000 miles, thus halving the time taken by the voyage. Additional fillip was given to the trade with England and other countries by the laying down of railways in India and the linking up of major sea-ports with the hinterland.

By this time India had become a unified country, at peace within and without. Customs barriers which had hindered internal trade had largely disappeared. England, having thoroughly

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1. Moreland :—From Akbar to Aurangzeb.

2. B. Narain :—India Before and Since the Crisis, Vol. I.

industrialized herself, was now upon the free trade basis and India followed suit. All these factors stimulated India's foreign trade and resulted in a striking expansion. From Rs. 89 crores in the quinquennium 1864-69 the total trade increased to Rs. 210 crores by 1899-1904 and still further to Rs. 376 crores in 1909-1914.

(v) *The War Period, 1914-1919.* During this period both our exports and imports fell off very much as is shown by the following table :—

TABLE I.

In crores of Rs. (calculated on the basis of 1913-14 prices)[1]

	Imports	Exports	Total
1913-14	183	244	427
1918-19	63	160	223

It is seen that imports fell much more than exports while the fall in the total trade is almost 50 per cent. The ratio of exports of manufactured goods to total trade improved from 22 per cent in 1913-14 to 36 per cent in 1918-19. If India had been able to manufacture machinery or import it, she could have utilized this opportunity to industrialize herself more fully as Japan did.

Reasons for the fall in trade may be summarized thus :—

(a) Trade with enemy countries stopped entirely; with neutral countries it was restricted severely.

(b) Destruction of vast areas of belligerent countries reduced their power of purchasing Indian goods.

(c) Inflation in some countries had the same effect on their trade with India.

(d) Lack of shipping accommodation, rise in freights and insurance charges handicapped trade greatly.

(vi) *Post-war Period, 1919-1929.* Just after the war was over there was a boom in trade. Indian goods were in great demand. But for the difficulties in railway transport in India and the high exchange value of the rupee our exports would have been even greater. As usual, this boom was followed by a depression when the balance of trade became adverse to us in 1920-21 and 1921-22. After 1921-22, Indian trade steadily recovered till normal conditions were restored. The table given below clearly enunciates these facts :—

TABLE II

In crores of Rupees. (Include re-exports, but excludes Government Stores.)

Year		Imports	Exports	Total	Balance
1919-20	...	222	336	558	+114
1920-21	...	347	267	614	—80
1921-22	...	282	248	530	—34
1922-23	...	246	316	562	+70
1929-30	...	249	318	567	+69

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[1] Table adapted from P. C. Jain's Industrial Problems of India, p. 127.

India was still importing manufactured goods, but their total importance in the import sheet was less than before, mainly due to swadeshi movement and progressive industrialization resulting from protection. The Government too purchased their stores in India whenevr available.

(vii) *The Period of the "Great Depression," 1929-1933.* The crash in the Wall Street in New York, "the greatest in its history," started a fall in prices which ended in an unprecedented slump all over the world. Behind this immediate cause were other deep-rooted ones. One of the most important of these was the maldistribution of gold in the world. More than 60 per cent. of the total gold in the world was with the U.S A. and France. The reserves of other countries were depleted for want of gold and they had to deflate their currencies, which brought down prices still further. Another cause to which this slump can be attributed was the mechanization of agricultural methods and consequent overproduction in raw materials and manufactures. Political troubles in South America and India accentuated the fall in prices. The slump brought about an intense wave of economic nationalism everywhere. This led to tariff barriers, quotas and bilateral treaties leading to a further reduction in trade. The high price of the rupee at 1s. 6d., when all other countries were depreciating their currencies, discouraged Indian exports. Japan devaluated the yen and started dumping goods into India. This led to the termination of the Indo Japanese Trade Convention and a boycott of Indian cotton by Japan—resulting in further aggravation of the trouble. The prices of raw materials and agricultural produce fell more than those of manufactured goods, hence there was a greater shrinkage in India's exports than her imports. To make good the difference between exports and imports India had to export a huge amount of gold amounting to over Rs. 350 crores between 1930 and 1938. But for these exports India's credit abroad would have been ruined, as she had to find money to pay for her Home charges. There was a dim glimmer of light in 1933-34 to show that Indian exports had at last turned the corner and were on the road to recovery.

(viii) *Recovery.* In spite of intense economic nationalism, high tariff barriers and limiting bilateral treaties, the years after 1933-34 showed a gradual recovery in trade. This was in the main due to (1) the adoption of the Recovery Plan in the U. S. A. and of similar plans elsewhere; (2) restriction and regulation of the production of raw materials like rubber; and (3) immense expenditure on armaments all over the world due to the fear of war. The Ottawa Pact signed by the British Empire countries in Canada in 1932 helped India's trade. It is affirmed that "in the event of the absence of this Agreement with the U.K. not only would this net addition of trade have been lost to India, but, over and above this, a further loss would have been inflicted on Indian exports to the United Kingdom as a result of unequal and privileged competition from the other Empire countries."[1] In 1934 the Indo-Japanese trade agreement was signed and our trade relations with Japan improved. The prices of raw materials improved resulting in an increase in the value of India's commodity exports. Business went on improving till 1936-37 but in 1937-38, there was a set-back in trade and business known as 'Recession' lasting till 1938 39 when the race for armaments and consequent high expenditure all over the world led to a rise in prices and improvement in trade. Later the threatening clouds of war grew darker in the horizon, made people nervous and checked business activity. Japan all this time was busy with her private war against China and her demand for Indian cotton fell off. Our exports in 1937-38, as compared with the previous year, decreased. The fall in the purchasing power of Indian agriculturists reduced their demand for imported goods.

(*ix*) *Trade During War Years.* With the declaration of war in 1939, the prospects changed. Prices tended to rise; demand for Indian raw material and manufactured goods also increased. As a consequence Indian exports went up in 1939-40; and though many markets were lost to India, her exports actually rose in 1941 42. It may be pointed out that trade figures during these years suffer from many shortcomings For instance, they do not include purchases made by the British Government nor do they take into account the Lend-Lease goods supplied by the U.S.A. or the Reciprocal Aid given by this country. The figures are further vitiated by the non-inclusion of the purchases of Indian Railways or of Indian States which have a sea-board of their own.

TABLE III

Foreign Trade of India (includin re-exports). In crores of Rupees.

Year	Imports	Exports	Total
1940-41	157	187	344
1941-42	173	237	410
1942-43	110	187	287
1943-44	118	199	317
1944-45	204	210	414

In spite of shortcomings, the above trade statistics move us to draw certain conclusions which may be stated thus :—

(*a*) Controls were imposed on Indian exports and imports. They became very rigid in 1942 43 when the total trade of India was the least. Trade Controllers were appointed and no private merchandise was exported or imported without previous sanction. A system of priorities was instituted and lincences were issued to private business men only after careful scrutiny. Large numbers of firms in neutral countries through whom there was a fear of leakage to enemy countries, were 'black-listed' and dealings with

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1. B. K. Madan—India and Imperial Prefefences, p. 190.

them prohibited. As time passed checks and restraints became severer.

(*b*) India lost many good markets as the war progressed. During the first twelve months many continental markets, like France and Italy, were lost to us either by defection or enemy occupation. In 1941 Japanese assets in India had to be frozen. During the next year our Far-Eastern markets were also closed to us while war was being fought in Burma and Assam. In spite of these losses India did not fare so badly as she found some new markets in the Middle East and expanded her exports to the Allies.

(*c*) A third cause of the recession in trade in 1942-43 was extreme shortage of shipping accommodation. Trade lists were carefully scrutinized and all non-essential items ruthlessly scrapped. Most of the available shipping space had to be utilized for transport of soldiers and armaments The exorbitant freight and insurance rates also handicapped sea-borne trade.

(*d*) As war became prolonged, stocks in the U. K. and the U.S A., the only two countries that could supply manufactured goods to India, became exhausted and could not be renovated due to their preoccupation with war. This served as another important factor in the fall of imports—what India needed was not available and the raw materials to make what was needed were being used to make war equipment.

(*e*) India's exports in this war showed a much greater resilience than her imports. The adverse factors working against foreign trade brought about a far greater shrinkage in imports than exports. The increase in imports in the last year of the war was the result of increased shipping accommodation being available. The decreasing enemy submarine activity was reflected in our trade returns. The largest increase in imports was, however, under mineral oils, mainly consumed by the army.

(*x*) *Trade During Post-war Years.* The following table gives us an idea of the trade of India in post-war years :—

(*In crores of rupees*)

		Exports including re-exports	Imports	Balance
1945[1]	...	229	232	—3
1946	...	266	292	—26
1947	...	320	334	—14
1948[2]	...	428	451	—23

1. It is seen that the foreign trade of India attained higher levels both in terms of value and volume as the war receded to the background.

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[1] Report on Currency of Finance, 1948, p. 28. Year ends 31st March, Includes transactions on Government account.

[2] Collected from monthly abstract of statistics. Exports and imports of Government Treasure not included. There was minus balance of Rs. 130 crores on this account.

2. Foreign trade was throughout influenced by the extension or relaxation of import and export controls by the Government of India.
3. There was a growing deficit in the country's balance of trade, particularly with hard currency countries like the U.S.A. This was caused by imports of food on Government account, and by imports of consumer goods for which the country had been starving during war years and partly by the urgent need for industrial raw materials like cotton and capital goods to replace worn out plant and machinery.
4. Controls over exports were gradually relaxed, but overall quantitative limits operated all the time. Controls were necessitated by Pakistan being declared foreign territory. Due to difficulties in obtaining dollar and other hard currencies, exports to such countries were licensed more freely than to soft currency countries.

5. Efforts to Stimulate Foreign Trade in War Years.

(a) *The Home-Market.* India lost many markets as a result of the war. Indian raw materials—cotton, oilseeds, hides and skins, usually exported to Japan, France and Germany—were lying unsold in vast quantities. The Government of India tried their best to encourage the growth of food grains in place of cash crops to prevent a further glut in the markets and assured the cultivators that they would not allow the price of food grains to decline unduly. As a matter of fact there was a big gap to be made up in place of the imports of rice into India from Burma. Moreover, large quantities of food grains were needed in Ceylon and Iran and to feed the Allied armies in the Middle East. There was little risk of prices of food grains falling—on the other hand, there was a great dearth of food in the deficit provinces and famine was stalking abroad. Hence the Government put into effect every conceivable measure to improve the situation in food. Subsidies were promised ; land revenue was excused for a few years if new lands were put under food crops ; and seeds of superior quality distributed free or at lower rates.

In spite of the food campaign, the prices of all food grains soared up and Government efforts to control them failed. The Government also tried to discourage the cultivation of commercial crops directly and indirectly. They made speculation and contracts in futures in cotton and jute illegal. They purchased huge quantities of textiles on behalf of the Allies and also exported them to the Middle East, thus encouraging greater consumption of cotton in the mills through working day and night.

(b) *The Foreign Market.* The Gregory-Meek Mission. Efforts were made to find new markets for Indian produce. In the pursuit of this object a mission, headed by Dr. T. E.

Gregory, Economic Adviser to the Government of India, and Sir David Meek, was sent to the U.S.A. in 1940. They reported in 1941, that the U.S.A. could not fill the gap of India's lost Continental markets in cotton, oil-seeds and other raw goods. This was but natural as the U.S.A. in addition to being an industrial country is an agricultural one *par excellence*. She did not need Indian cotton and she imported all the oil-seeds she needed from Argentina. The U.S.A., however, needed Indian manganese ore, mica and rubber, which was all to the good. The report further indicated that Indian fancy goods and curios in metalware, embroidery, rugs and carpets could find a market in the U.S.A. Kashmir and Banaras-made goods were in demand there. Such a market, however, was not a steady market and needed careful study and constant nursing.

Luckily India discovered useful markets in the Middle East. Turkey, Iran, Iraq, Arabia, Egypt and S. Africa came to her rescue. They not only wanted India's food grains but also her textiles. Canada and Australia absorbed some of her goods. In 1940, an Export Advisory Council was constituted to find ways and means to encourage exports from India and to help industry and trade in general. To forge trade links with foreign countries Trade Commissioners or Consuls were appointed in a number of countries such as Afghanistan, Canada, Argentina, Australia, Egypt, Kenya, Natal, London and New York. As a consequence Indian exports abroad did not have too severe a set-back.

6. Commercial Intelligence and Organization. India has Chambers of Commerce in all important provinces, some of them European, others purely Indian. They are responsible commercial organizations doing good work in making useful suggestions to Government and criticizing their actions when necessary. They educate Indian public opinion on current economic, commercial and industrial matters and serve as useful guides and mentors generally.

Of course, India comes nowhere near the U.K., the U.S.A., Germany and Japan so far as collection of economic data and commercial statistics is concerned, but compared to former times the country is far better served. The Department of Commercial Intelligence and Statistics, the Railway Board, and the Information Bureau compile useful statistics and provide and disseminate correct information. The former keeps close contact with Trade Commissioners and Agents abroad and takes active steps to give required publicity to Indian products in foreign markets. The Department of Industries gives useful help and guidance to commercial and industrial firms in India.

7. Peculiar Features of India's Trade.—1. Pre-war years (before 1939). Main features of India's pre-war foreign trade were as follows :—

(a) The U. K. held a predominant position in both imports and exports before the First World War. In the quinquennium before 1914, imports from the U.K. into India amounted to 63 per cent of the total trade. This figure went on decreasing till it reached 30 per cent in 1938 39 but still it is big enough. This predominance of the U. K. was due to the fact that she was the first country in the world to industrialize herself. She was also the suzerain Power in India for more than a century. She was thus in a position to sell her goods in India to her benefit.

The share of the U.K. in India's exports in 1909-14 was not so great as in the imports, being only 25 per cent of the total. This percentage went on increasing gradually till it reached 34 in 1938-39. The U.K. invested huge sums of money in Indian railways, factories and plantation industries. From these she drew large dividends annually. Her ships, banks and insurance companies rendered "invisible services". For all these and various other services India had to pay a heavy price. This was the reason why the U. K.'s share in India's exports kept steady.

In time other countries also industrialized themselves and began to forge direct trade links with India. As a consequence Britain's share in India's trade began to decline. Britain's place was partially taken by Japan, Germany and the U.S.A. who were responsible for 9.4%, 6 6% and 8% respectively of our total trade in the year 1938 39.

The table below makes the position clear :—

Share of the U. K. in India's Trade (In lakhs of rupees)

	1909-14 Average		1914-19 Average		1938-39	
	Value	Per cent	Value	Per cent	Value	Per cent
Exports	56,30	*25·1*	69,62	*31·1*	58,25	*34·3*
Imports	91,58	*62·8*	83,56	*56.5*	46,49	*30·5*

(*b*) Manufactured goods were preponderant in India's imports. Consumer goods consisting of textiles, leather goods, glassware, watches and clocks, toys, motor vehicles, cycles, sewing machines, stationery and the like were largely imported. As time passed, imports of such goods decreased while those of raw materials and food products increased.

Composition of India's Import Trade in the Inter-war Period.

(Percentage of total imports)

	1920-21	1938-39	1939-40
1. Food, drinks and tobacco	11	16	22
2. Raw materials ...	5	22	22
3. Manufactures ...	84	62	56

It will be seen from the above table that even in 1920-21, manufactured articles were as high as 84% of our total imports. Up to that time Indian fiscal policy had been primarily manipulated to help British economic interests. It was only during the First World War that it was realized that this policy needed to be reshaped. Accordingly after the war was over, in 1921 a Fiscal Commission was appointed and discriminating protection gradually introduced. As a result a few industries got protection. Meagre as this protection was, still it helped to develop a few industries, *e. g.*, steel and sugar. This progress is not commensurate with the vast resources of India and even so, it is more apparent than real, for foreign interests established themselves in India behind the tariff walls. Imports of matches show a decline, but the fall is due to the Swedish combine establishing itself in India as in other countries. Similarly the fall in imports of soap was due to Lever Bros. coming over to India. In other lines, *e.g.*, textiles, steel and sugar, however, Indian enterprise progressed. The table below shows imports into India of some manufactured goods. It also shows how these imports progressively decreased during the inter-war period.

Imports of some Manufactured Articles

(In lakhs of rupees)

		1920-21	1932-33	1938-39
Cotton piece-goods	...	83,78	13,37	14,15
Iron and steel	...	31,29	5,30	6,66
Sugar	...	18,50	4,23	24
Matches	...	1,67	1	...
Cement	...	1,39	29	5

(*c*) Another peculiar feature of India's trade during these years was the preponderance of agricultural commodities and raw materials in her exports. Before the First World War about 70% of India's exports consisted of foodstuffs and raw materials. During the war years 1914-18, there was some increase in the percentage of exports of manufactured goods but this could not be maintained afterwards. In 1920-21, for example, foodstuffs and raw materials exported were 64% while manufactures were 34% of the total, and in 1939-40 the percentages were still about the same. This clearly proves that India could not very much utilize her industrial raw materials till 1939 and the bulk of her exports consisted of raw materials. The following table shows the position clearly :—

Composition of India's Foreign Trade (Percentages of Export)

	1920-21	1932-33	1938-39	1939-40
Food, drinks and Tobacco	28	29	23	20
Raw Materials	35	42	45	43
Manufactures	36	29	30	38

Further, it is seen that while India's imports consisted of a very large variety of goods, her exports were few in number. A few of the selected exports are given below :—

Exports of Selected Articles (In lakhs of rupees)

		1920-21	1932-33	1938-39
Raw Cotton	...	41,63	20,37	24,82
Raw Jute	...	16,[illegible]6	9,37	13,40
Seeds	...	9,00	8,00	8,00
Hides and Skins	...	5,24	2,76	6 04
Tea	...	12,15	17,15	23,29
Cotton piece-goods	...	7,51	2,09	7,57
Jute manufactures	...	52,45	21,40	26,26

(*d*) One of the most striking features of India's foreign trade during these years was her favourable balance of trade. This made it easy for the government of India to maintain a stable exchange ratio to remit funds abroad and to meet obligations of all kinds. It was only in exceptional years, as in 1920-21 and 1921-22, that India had an adverse balance. Normally exports exceeded imports. During the depression years starting in 1931 the balances gradually grew less favourable. India then started exporting gold to make good the deficiency in exports of merchandise.

India had to meet home charges ranging between Rs 30 crores and Rs. 50 crores.[1] Since 1931 the balance of trade was not enough to meet India's obligations abroad, hence in September, 1931, the exodus of gold started and continued up to the outbreak of Second World War when our balance of trade grew favourable again. During these years India exported no less than Rs. 362 crores worth of gold. This sale of gold by the people of India who were in distress through an abnormal fall of prices after 1929 came to the rescue of India's foreign trade and supplied funds to the Government to meet home charges and their other obligations abroad.

Conclusion. During the inter-war period Economists looked askance at foreign trade. It was used as an instrument to earn dividends for England. India had to pay for her home charges, salaries of British civilians and soldiers in service here and a return on the ever-expanding British capital in the country through a favourable balance of trade. During these years the mechanism of foreign trade was made to work against India's industrial development. Primary commodities were exported and consumer goods imported. The world at large, too, used tariffs and restrictions for purposes of self sufficiency. Hence, it was thought that a country should have as little of trade as possible.

(II) *War Years (1939-45).* Immediately after the declaration of war, there was a great increase in trade activity all over the world. Every country tried to import raw and manufactured goods which it lacked and which, it thought, would be of use to it in case it had to fight. Hence Indian raw materials were in great demand. When, however, France and other Continental countries were occupied by the Axis countries, most markets were lost to India bringing about a sharp shrinkage in her foreign trade. The outbreak of war against Japan made matters still worse. Gradually, however, as the Allied armies won victories, India's exports showed an improved trend in certain commodities like tea, cotton and jute manufactures.

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[1] See N.P.C.'s Volume on Trade, p. 239.

(*i*) *Composition of Trade.* The changes in the composition of trade of a country form a fascinating study. They reflect the changing nature of the economic activity in the country. We see that during World War II there was a perceptible change in India's export trade. (*a*) The place of pride was still occupied by jute manufactures, the export of which amounted to no less than Rs. 36 crores, Rs. 49 crores and Rs. 60 crores in 1942-43, 1943-44, 1944-45, respectively. (*b*) There was a sharp rise in the exports of cotton piece-goods which improved from Rs. 6 crores in the pre-war period to Rs. 46 crores in 1942-43 and Rs. 38 crores in 1944-45. This sudden increase in the exports of cotton piece-goods was due to the alignment of Japan on the side of Axis which event provided India an opportunity to capture the lucrative markets of the Middle East and Africa. (*c*) Tea which provides an excellent stimulating drink was also in great demand in Europe and America and in 1944-45 its exports exceeded Rs 38 crores (*d*) In the pre war years, India was the principal supplier of groundnuts to France, the U.K. etc., the average exports being more than 9 lakh tons. During the war years India developed her own vegetable oil industry and thus freed herself from dependence on foreign markets in this respect. The Government of India adopted a definite policy in this connection and tried to build up a trade in groundnut oil.

India's total exports during 1943-44 and 1944 45 amounted to Rs. 200 crores and Rs. 211 crores, respectively, out of which manufactures accounted for Rs. 105 crores and Rs. 113 crores. The proportion of raw materials, foodstuffs and manufactures in India's exports and imports is clear from the following table and speaks volumes about the transformation of India's trade during war years :—

Sea-borne Trade of British India (In crores of rupees)

Particulars	1940-41	1941-42	1942-43	1943-44	1944-45
Imports—					
Foodstuffs	24	28	8	7	19
Raw materials	42	50	52	64	117
Manufactures	70	94	49	45	65
Miscellaneous	2	2	1	2	2
Total	138	174	110	118	203
Exports—					
Foodstuffs (including tea)	42	60	49	48	50
Raw materials	68	73	45	54	58
Manufactures	86	115	98	106	116
Miscellaneous	2	4	3	2	3
Total	198	252	195	210	227

(*ii*) *Direction of Trade.* Studying the direction of India's foreign trade during these years, it is apparent that she expanded her trade with the Empire countries to a large extent. She established more intimate contacts with Australia, Canada, Egypt, Iraq and other Middle East countries, especially with those in the sterling bloc. During these years India built up a favourable balance of trade with all these countries except with the Bahreins and Iran which supplied huge quantities of mineral oils to India, Rs. 31 crores and Rs. 53 crores worth in 1943-44 and 1944-45, respectively and imported goods of a much less value in return.

(*iii*) Another salient feature is that India built up a very heavy trade with the U. S. A. It came to Rs. 95 crores in 1944-45 as compared to Rs. 102 crores with the U. K. in the same year.

(*iv*) *Balance of Trade.* Besides, Indian imports continued at a comparatively lower level (up to 1943-44) mainly due to the inability of foreign countries to produce the consumer goods needed by India. Indian exports showed a greater resilience than her imports in spite of the lack of shipping accommodation. Thus the balance was heavily in India's favour.

Balance of Trade. (In crores of rupees)

Year	Balance	Year	Balance
1938-39	+17.5	1941-42	+80
1939-40	+48	1942-43	+84
1940-41	+42	1943-44	+92
		1944-45	+42

(III) *Post war years.* The negative attitude adopted by various countries, including India, in the inter-war period is no longer needed. Planning of trade both in the short and the long-period has become a necessity. India today needs external finance for the import of equipment to replace the plant and machinery worn out by double-shift working during World War II. For the same purpose India needs a favourable balance of trade so as to be able to pay for her imports for developmental purposes. Certain peculiarities of trade strike us in the eye as we look at the trade figures in post-war years. They are as follows :—

(*i*) Partition of India into two Dominions has not affected the volume of trade. On the other hand the values of both imports and exports have shown considerable increase. This is mainly due to relaxations in licences and the recovery of world trade and shipping conditions. In 12 months from December 1947 to November 1948, the value of foreign trade came to Rs. 850 crores, which is a record.

(*ii*) The balance of trade has become unfavourable to India, especially with the dollar and hard-currency countries.

Balance of Trade 1948 (In crores of rupees)

	Total	Non sterling countries.
Exports	428	206
Imports	451	240
Balance	—23	—34

Thus, the chief problem of India's export trade is to increase exports to hard currency areas. Her exports to the U. S. A. in 1948 came to Rs. 78 crores and imports to Rs. 108 crores, thus giving us a deficit of Rs. 30 crores. Overall destinational quotas have had to be fixed for different countries, and exports to dollar countries stimulated, through easier licences being granted to them The Export Advisory Council under Mr. Siri Ram suggested early in 1949 that we should earn dollars through encouraging tourist traffic and providing it with special amenities at our beauty and historic spots. The Council suggested that as hard currency countries preferred seeds to oils, permission to export seeds to them might be granted even if it meant going back on the policy of encouraging oils in place of seeds. They recommended advertising and propaganda by the Tea Marketing Expansion Board in the U.S.A. so as to encourage export of tea to that country. They wanted an open general licence for export of brassware and artware to be sent to the U.S.A. and Canada. Besides, they suggested a Directorate to draw up a constructive programme to improve India's cottage industries and their products to be exported.

(*iii*) The peculiarity of larger exports of manufactured goods which made its appearance during war years is persisting. At the same time imports of industrial raw goods, especially raw cotton from Egypt, and East Africa are increasing. Imported cotton is mainly long-staple or medium. India did not need so much of raw cotton from abroad previously when Pakistan was a part of India. Since the partition, the conditions are different and we have had to import cotton from countries like Egypt, Sudan and Pakistan and jute from Pakistan.

Imports into India.

(In crores of rupees.)

Year.	Foodstuffs	Raw materials.	Manufactures.	Miscellaneous
1945	22	128	88	3
1946	33	77	149	7
1948	83	110	270	5

(*iv*) We have to import large quantities of raw jute now. Since August 1947, 73% of the total area under raw jute has gone over to Pakistan. As a consequence India has to import about five million bales of raw jute from Pakistan for being manufactured in Indian jute mills and for being exported to foreign countries so as to earn much-required dollars.

(*v*) India is in a parlous condition, because of the huge imports of foodstuffs required In 1948, three million tons of food grains worth Rs. 110 crores from almost all over the world including countries like Argentina, the U.S.A., Canada, Italy, Turkey, Russia, Australia, Siam and Burma had to be imported. In 1949 she is expected to import four million tons valued at about Rs. 150 crores.

(*vi*) Slowly but gradually industrialization is gaining strength in India and larger variety and quantity of manufactured goods are being exported :—

Exports from India

(In crores of rupees)

	Foodstuffs	Raw materials	Manufactures
1945	53	57	104
1946	53	91	130
1948	80	108	230

(*vii*) Lastly, as compared with pre-war years, the direction of the trade of India shows a considerable change. The U. K. still holds an important position in our exports and imports but the U S.A. is catching her up. Australia, Pakistan, Canada, Burma and Egypt also occupy important positions in India's trade sheet. There are great trading possibilities with Middle East countries with which India has already forged new links. Indian trade relations with countries in the Far East have also a great future. Once peace is established in Indonesia, trade with it is bound to grow.

It is a remarkable thing to notice that our total import and export trade with non-empire countries is gradually coming near to our trade with empire countries which is clear from the following table :—

Trade.

(In crores of rupees).

Commonwealth—	Exports.	Imports.	Total.
1945 ...	130	90	220
1946 ...	134	147	281
1948 ...	211	209	420
Foreign—			
1945 ...	89	151	240
1946 ...	144	116	260
1948 ...	209	246	455

8. Direction of India's Trade with Countries. By direction of trade we mean the countries with which India has trade relations and the merchandise she sells to them or buys from them. We can easily divide the world into British Empire countries and foreign countries so far as India's trade is concerned. It is seen that

India's exports to British Empire countries have been steadily rising from 41% in 1909-14 to 65·4% in 1944-45. After the end of World War. II, however, India's exports have shown a tendency to be equally divided between the British Empire and foreign countries.

Percentage—Exports.

	1909-14	1938-39	1943-44	1945	1946	1948
Br. Empire	41	54	65	60	48	50
Foreign	59	46	35	40	52	50

Percentage—Imports

Br. Empire	70	58	48	37	56	46
Foreign	30	42	52	63	34	54

As the above table makes clear our imports from British Empire countries were as high as 70% in 1909-14. Since then they have also been falling, till in the last year under report they are 46% which is less than imports from foreign countries. Thus India is now depending for the supply of her needs for capital goods to a larger extent on the U.S.A., Czechoslovakia, Belgium and Japan, than on the U. K., and for her food grains on Burma, Pakistan, Argentina and Russia than on Canada and Australia.

India's trade with some individual countries should form an interesting study.

(i) *India and the U.K.* The U.K. has always been the premier country in India's trade sheet. She has always been heading India's export list prior to the First World War, in the inter-war periods, as well as during World War II. In the post-war years, too, she tops the list in 1946-47 and 1947-48.

On the import side the U K. has been losing ground from 63% before 1914 to about 25% in the years of World War II and to 20% in 1944-45.

In the post-war years the U.K. has recovered her position in the imports of India to about 30%. This is due to the fact that India has a credit balance in England in her sterling assets and utilises as much of it as she is allowed to. The following table makes the position of the U. K. in India's trade clear :—

SHARE OF THE U. K. IN INDIA'S TRADE.

Period.	*Imports.*	*Exports.*
	%	%
1909-10 to 1913-14 (average).	62·8	25·1
1938-39 ...	30·5	34·3
1944-45 ...	20·0	29·2
1945-46 ...	25·3	28·2
1946-47 ...	30·1	20·0
1948	31·7	24·5

Though there has been a percentage decline in Britain's share in India's foreign trade, the absolute amounts do not show so pronounced a fall. In the last two years under review imports from the U. K. actually show an increase over the war figures. It can be asserted that the U. K. is getting back its position as chief buyer of our goods and chief supplier to us. Machinery, mill work and machine tools are the biggest items amongst the U K.'s export to India. The U. K. also supplies us with vehicles, chemicals and drugs and dyes and colours. In return, India sends out jute goods, tea, hides and skins, gums and resins and oilseeds to the U.K.

(*ii*) *India and the U.S.A.* The U.S.A. had not penetrated deep into the Indian market before the last World War. She supplied no more than 6% of India's needs in 1938-39. While taking in about 10% of Indian's exports with the falling out of Japan and the Continental countries of Europe during the war years, however, the U.S.A. greatly improved her position in India's import sheet. Thus she sold to India no less than 25% of her needs in 1944-45. This position has been maintained in 1948 when the U. S. A. supplied India with Rs. 107 crores worth of goods out of a total of Rs. 430 crores and purchased no less than Rs. 98 crores of her needs from India.

In spite of the fact that India's commercial ties are still with the U.K., the U.S.A. is running a close second to it in post-war years. The U.S. market absorbs large quantities of raw jute and jute cloth, goat and lamb skins, lac, cashew nuts and sandalwood The U.S.A. further purchases all her requirements of cocoa-matting and coir-yarn and ilminite from India. Indian tea, castor seeds and spices also find a market in the U.S.A. The position of no other commodity is as important in the Indian-American trade as that of jute and jute manufactures which form approximately 50 % of India's total exports to the U.S.A. The U.S A. is India's leading customer in goat and kid skins taking in 35 to 40 per cent of total exports of these before the war. In 1945, the U. S. A. purchased 16 million worth of tea from India which is 50% of India's total exports of tea. The value of cashew-nuts exported also came to 16 million dollars.

The United States has now come to be a principal supplier of machine-tools, mining machinery and typewriters to India. She also sends gas-engines, tractors and oil-crushing and refining machinery. Another valuable category of American exports to India consists of automobiles, trucks, busses, chassis and parts. The U.S A used to sell us large quantities of long-staple raw cotton ; now most of it comes from Egypt, Sudan and Kenya. Exports of medicinal and pharmaceutical preparations from the U.S.A. to India have increased from $1½ million in 1938 to $ 5½ million in 1945. American toilet preparations are also popular in India. Ninety per cent of India's needs for flue cured virginia tobacco are supplied by the U.S.A. Imports of this commodity have risen from about $ 2 million in 1938 to $ 9·6 million in 1945. Another notable war-time increase is to be found in foodstuffs, particularly dried and evaported milk and malted liquors.

Lend-lease trade from 1938 to 1945 was on a vast scale, amounting to no less than $,2-400 million or double the total value of goods imported from the U. S. A. from 1900 to 1938[1]

India has always enjoyed a favourable balance in its trade with the U.S.A. From 1942-45 this export balance gave India a total credit of 421 million dollars.[1] After the war was over, this favourable balance has turned into an unfavourable one. From December 1947 to November 1948 it came to no less than Rs. 44 crores One of the problems which India has to solve today is the scarcity of dollars to meet the deficit in her trade with the U.S.A. India has had to draw on the International Monetary Fund to the tune of $ 92 million during the last year to meet this deficit. She is also trying to extend her trade to hard currency areas which only are in a position to satisfy India's need for machinery, machine-tools and plant.

India's desire to industrialize is a potent reason why India's trade with the U.S.A. should increase. India needs capital goods and technical assistance. The U.S.A. is in a position to supply agricultural and industrial machinery of excellent quality as well as lend services of experts and technicians. Once India can produce foodstuffs sufficient to satisfy her own needs, there is reason to believe that her balance of trade with the U.S.A. would equilibriate itself.

(*iii*) *India and Australia.* (1) Primary Producer pre-war : (2) War Manufacturer.

Prior to 1939 Australia was considered a country of farmers and gold diggers Her exports consisted of wheat, meat, wool, fruit and dairy products She depended mainly on the U. K. for her needs of manufactured goods. The outbreak of war made the speeding up of manufacturing an urgent necessity. Under its impetus, such rapid progress towards industrialization was made that all predictions were exceeded. This remarkable progress was possible only because of the existence in Australia of ample supplies of raw material for most lines of manufacture, together with efficient service, cheap sources of power and an army of workmen quickly adaptable to skilled trades.

As a result Australia is now an industrial country with great potentialities. India desires to industrialize herself. Australia can supply technical advice and capital equipment in various lines She can offer machinery for processing food and raw wool and for the manufacture of paper, plastics, plywood and leather goods She is also in a position to export agricultural and road-making machinery and appliances which we urgently need. Machinery for making paints is also available.

In return India has an assured market for oil-seeds, shellac, myrobalans, goat skins, mica, spices and jute manufactures. She can also sell some cotton. The Indian Trade Commissioner in Australia, Mr. Saksena, however, opines that India will not be able to maintain her position in cotton textiles in Australia. Great

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[1] Position and Prospects of India's Foreign Trade, p. 246.

Britain and the U.S.A. will compete with her in this direction in the very near future. They produce not only piece goods but also most up-to-date machinery to make them. Australia, too, is meeting a very substantial proportion of her total demand for cotton piece-goods, But for the fact that Japan is out of the picture, India would not have a look in here.

Trade relations between India and Australia are clear from the table below :—

Trade between India and Australia. (In lakhs of rupees)

	1909-14 *average*	1938-39*	1943-44*	1945-46	1946-47*	1948
Exports	314	248	1,324	1,056	1,375	2,378
Imports	101	241	992	735	1,040	1,851

It would not be out of place to remark here that New Zealand is in a position to supply large quantities of milk products such as dried milk and lactose to India. She can also supplement Indian food by exporting frozen meats. They are a very real necessity at present as supplies of milk products especially are insufficient in India. India can supply jute products, carpets and some industrial products.

(*iv*) *India and Canada.* India and Canada are both primarily agricultural countries. Both of them are making progress in industrial development rapidly but they do not enter into competition with each other ; on the other hand they can supplement each other's needs. Therefore, there is ample scope for an expansion of trade between India and Canada in the future. The main items of export from India to Canada are tea, jute products, goat and sheep-skins, nuts such as pea-nuts, walnuts and cashew-nuts, vegetable oils, lentils, pulses and spices, carpets, namdas and brassware.

Canada in return has been exporting some wheat and factory equipment including cream-separaters, churns, wood and metal working machinery, agricultural equipment, *e. g.*, ploughs, tilling machines, including generators and transformers.

India has been supplying some cotton textiles to Canada as well since the elimination of Japan from the textile market. The Trade Commissioner in Canada reported that India has a chance of retaining this market.

During the year 1944 the total value of Indo-Canadian trade reached the record figure of $ 202 million, 19 times more than in the year 1938. As the result of this spectacular expansion, India occupied the third position in the order of importance both as a seller and a buyer of Canadian goods.

The balance of trade which used to be favourable to India in pre-war times (it was 4 : 1 in favour of India in 1938) was almost 1 : 7 in 1944 against it. War being over a good many of the articles which were being exported to India for military purposes have dropped out and we see that the balance of trade in the last year under report has slightly turned in favour of India. Obviously, however, the total amount of trade has not tended to decrease much : exports from India have actually increased.

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* Figures taken from the accounts of sea-borne trade of India.

Trade between India and Canada. (In lakhs of rupees)

	1938-39	1942-43	1948
Imports	92	553	738
Exports	214	391	900

(*v*) *India and the Middle East.* Trade between India and the Middle East countries has been in existence for centuries, but it grew very much more important during the last world war. These countries could not obtain their normal supplies from Europe and Japan, hence they had to look to India to satisfy their needs. India would have done even better but for adequate means of transport.

Egypt, Turkey and the Sudan are principal buyers of our jute manufactures.

Cotton piece-goods have played a prominent part in the Indian export trade to the Middle East during and after the last world war. The total value of these exports increased from about Rs. 31 lakhs in 1938-39 to over Rs. 10 crores in 1942-43. Since then exports of cotton piece-goods, yarn and twist have kept up.

Of course these countries do not buy as much tea as the U.K. or Canada, but this market is not a negligible one and absorbs about Rs 3 crores worth of tea in a year. It needs looking after.

Indian tobacco could be made popular if it were properly packed and graded.

Before the war India purchased her mineral oils mainly from Burma (48%), Bahrein (11%), Java (13%) and the U. S. A. (2%). When the Indies and Burma were lost to Japan, India had to depend for her mineral oils on Iran and Bahrein. In 1942-43, India purchased Rs. 28 crores worth of oil from these two sources. In 1944-45, India purchased no less than Rs. 49 crores worth of oil from Iran and sold only Rs. 3 crores worth of goods in return. In 1946-47, Indian imports from Iran came to Rs. 25 crores while her exports in the same period were again only Rs. 3 crores.

(*vi*) *India and Pakistan.* What was internal trade in United India has become external trade between the two Dominions. Pakistan is largely agricultural while India is more industrial. Pakistan has a considerable surplus of raw jute, raw cotton and wheat. India, on the other hand, can supply considerable quantities of textiles, sugar, steel and other manufactured goods. Accordingly in May 1948 a comprehensive treaty was drawn up between the two Dominions along these lines at Karachi. This treaty has to run up to 31st August, 1949.

As to cotton and cotton textiles, transactions were first made in accordance with the ratio of 20 bales of Pakistan cotton to 12 bales of Indian cloth and yarn fixed by the March Agreement. Under the terms of the general agreement of May, a long-range exchange agreement for the supply of 650,000 bales of cotton to India by Pakistan for 400,000 bales of cloth from India came into force from September, 1948, for one year up to August, 31, 1949.

The Karachi Agreement of May set down the quantities of each commodity which each Dominion undertook to make available to the other between July 1, 1948 and June 30, 1949, in all cases except that of raw cotton and cotton textiles and food grains for which the one-year period is to end on August 31, 1949. It was also agreed that imported goods which had been shipped and paid for in either dominion before December 31, 1947, out of the undivided exchange account will be allowed to be re-exported to the other dominion whenever it was established that the goods were originally intended for consumption in that dominion. Supplies were generally to be made through ordinary commercial channels, except being subject to the usual controls for import or export if any. Both the dominions agreed not to re-export any commodity imported from the other dominion. India on her part was to limit her export of raw jute to 900,000 bales of the usual Indian varieties. The controlled goods were to be supplied at the controlled price in the dominion concerned. India took upon herself to supply to Pakistan 183,000 tons of coal (160,000 tons firm) per month, 15,000 tons of steel and scrap plus 6,000 tons of corrugated iron sheets, and 4,000 tons of pig iron, 6,000 tons of paper, 1,500 tons of board, 270 tons of hydrochloric acid, 200 tons of nitric acid, 800 tons of magnesium sulphate, 2,500 tons of asbestos sheet, 2,500 tons of paints, enamels and varnishes, 50,000 tons of jute manufactures, 2,000 tons of myrobalams, 11,00,000 lbs. of woollen and worsted goods, 20,000 tons of mustard oil, 6,000 tons of groundnut oil, 22,000 tons of soaps (toilet) and 7,00,000 lbs. of tobacco (flue-cured). Besides, India agreed to supply leather and foot-wear up to the amount demanded by Pakistan, if Pakistan on her part sent sufficient quantity of raw hides and skins. On her part Pakistan agreed to supply to India 50 lakh bales of raw jute, 30 lakh pieces of cow and buffalow hides, 15 lakh pieces of skins, 20 lakh mds. of rock salt, 5,000 tons of potassium nitrate and 550 heads of cattle. In addition, Pakistan undertook to try to supply 1,000 tons of gypsum per day and a total of 10,000 tons of soda ash, if possible.

On February 27, 1948, Government of India declared Pakistan to be a foreign country for the purpose of levying customs with effect from March 1, 1948. In contravention to the terms of agreement at the time of partition, Pakistan claimed a share of export duty on jute collected at Calcutta. For this reason Government of India was constrained to declare Pakistan as foreign country for purposes of export and import duty.

(vii) *India and Lands of the Far East.* India has always had some dealings with these lands. The aggregate trade is appreciable, but trade with individual countries, except with Japan, Burma and Ceylon, is not much. Figures for 1938-39, a pre-war year, give a better idea of the trade with these countries than for any later years.

Trade with Far East in 1938-39 (In crores of rupees)

	Exports	*Imports*	*Balance*
Burma	10	24·3	—14·3
China	2·2	1·7	+0·5
Japan	14·6	15·4	—0·8
Ceylon	5	1·0	+4·0
Malaya	2·4	4·1	—1·7
Indonesia, Indo-china, Thailand, Formosa, Philippines, etc.	3·9	2·5	+1·4
Total :—	+38	49	—11

Only with Ceylon have we got a favourable balance worth consideration — not with any other country. India's trade with Burma has been always unfavourable, being Rs. 15 crores against us in 1937-38, in 1938-39 Rs. 14 crores, in 1939-40 Rs. 18 crores, in 1940-41 Rs. 11 crores and in 1941-42, Rs. 16·5 crores. During the war years there was no trade with Burma. In 1946-47, the balance of trade was favourable to us by Rs. 4 crores, but after the partition, from December 1947 to November 1948 it was unfavourable by the same amount. We import rice, mineral oil and teak-wood from Burma, and export in return manufactured goods like textiles, sugar, paper, gunny bags and oilman stores.

We used to import textiles and other consumer goods of all kinds from Japan, giving her mainly raw cotton, pig iron, manganese ore, mica, castor seeds and other industrial raw materials in exchange. In post-war years the economic life and trade of Japan have been under control of SCAP (Supreme Commander of Allied Powers). Her exports and imports are severely regulated. In April 1948, a Japanese Trade Delegation headed by Mr. W. R. Eaton arrived in India. Later, a Sterling Area Agreement was arrived at between Japan and five Commonwealth countries including India. India undertook to import $ 26·5 million worth of goods such as machinery, cottons and woollens, ferro-alloys, bicycles, sewing machines, electrical goods and bobbins and spindles against raw cotton, wool, iron ore, mica, manganese, coal and shellac.

America does not want Japan to be a source of military danger again; hence the strictness with which Japan's rise to economic greatness is controlled. For the next few years Japan can well be considered out of the field of competition with India and the West.

The United Nations' Economic Commission for Asia and the

Far East (E. C. A. F. E.) has met a number of times. It met at Ooty in June 1948 and pointed out that the economy of the countries had developed in a lop-sided manner. Economically and otherwise India occupied a pivotal position amongst them. This area is rich in natural resources both agricultural and mineral; it produced 92% of the world rice, 96% of tea and 38% of cane-sugar. India is making strenuous efforts to develop industrially. She has built up a good many factory industries already. As Japan is not in the field yet, India can supply most of the needs of these countries in the way of consumer goods. They in return can supply her with a good many raw materials. Consequently India's trade relations with this part of the world in future are bound to be very intimate.

9. **Direction of Trade in Commodities.** (*A*) *Exports.* We shall now discuss the destination of some important commodities exported from India.

(*i*) *Jute.* The U.K. is India's best customer of jute, taking about Rs. 4 crores worth in 1945-46. The U.S.A. is the second best consumer purchasing Rs 3 crores of raw jute. Rest of the jute exports go to various countries scattered all over the world.

These consist of twist and yarn, gunny bags and hessian and are sent to the U.S.A., the U. K., Australia, Argentina, Egypt and other agricultural countries. We are the largest producers of jute manufactures. Since the partition of India we are dependent for three-fourths of our supply of raw jute on Pakistan. In 1948-49, Pakistan agreed to supply 5 million bales of raw jute to India. The supplies have not been coming regularly. Hence Indian jute mills (there is not a single jute mill in Pakistan) often feel nervous as the stocks go lower. The Government of India is making experiments in the production of jute in South India. India has exported a record amount of jute manufactures in 1948 in order to pay for her increased imports of food grains and capital goods from abroad.

Export of Jute (In lakhs of rupees)

	1943-44	1944-45	1945-46	1946-47	1947-48
Raw jute ...	823	750	1,584	1,994	2,368
Jute manufactures ...	4,947	6,043	5,953	7,067	149 40

(*ii*) *Cotton raw and waste.* India exported Rs. 16 crores worth of raw cotton in 1945-46. In post-partition years, it is difficult for India to maintain exports of cotton as large areas producing long-staple cotton have been transferred to Pakistan. India, therefore, has had to import large quantities of raw cotton from Egypt, the Sudan, Kenya and Pakistan. Pakistan undertook to export 6½ lakh bales of raw cotton to India in 1948-49 against 3,28 thousands in 1947-48. India can now supply only short staple cotton. Her customers in this line are the U.K., Japan, Italy, etc.

(*iii*) *Cotton Yarns and Manufactures.* The year 1942-43 was the best so far as exports of cotton manufactures are concerned. In this year India sold no less than Rs. 4,687 lakhs worth of piece-goods. Since then the values of cloth exported have been declining,

DIRECTION OF INDIA'S SEA-BORNE TRADE (In lakhs of rupees)

Countries	1945			1946			1947			1948		
	Import	Exrort (Excluding re-exports)	Balance (Excluding re-exports)	Import	Export (Excluding re-exports)	Balance Excluding re-exports)	Import	Export (Excluding re-exports	Balance (Excluding re-exports)	Imrort	Export (Excluding re-exports)	Balance (Excluding re-(exports
British Empire												
U. K.	50,43	64,02	+ 13,59	1 00,88	70,04	—30,84	1,12,56	91,44	—18,12	1,43,07	104,63	– 38,44
Total British Empire	90,06	,30,15	+ 40,10	1,49,11	1,40,91	—8,20	1,61,02	1,72 56	+11,52	208,96	210,78	+ 1,82
Foreign Countries												
U. S. A.	71,06	50,70	—20,36	46,41	70,07	+23 66	1,17,12	73 44	—43,68	107,97	77,57	—30,40
Egypt	17,98	2,99	—14,99	12,63	22	—10,27	21,96	—	—21,96	25,96	7,32	– 18,64
Iran	51,29	1,29	—50,01	25,57	2,65	—22,92	23,88	—	—23,88	18,95	2,37	—16 58
Other Foreign Countries	7,14	32,99	+25,85	28,86	61,56	+32,70	68,40	1,19 04	—50,64	152,88	87,20	—65,62
Total Foreign Countries	1,47,48	87,97	—59,51	1,13,47	1,36,64	+23,17	2,31,36	1,92,48	+38,88	245,78	208,85	—36,93
Total Trade	2,37,54	2,18,13	—19,41	2,62 58	2,77,55	+14,97	3,92,40	3,65 04	—27,36	454,74	419,63	—35,11

In 1945-46, they came to Rs. 3,280 lakhs only. Our best customers are the Middle East countries, East Africa, Australia and Ceylon.

Exports (In lakhs of rupees)

	1943-44	1944-45	1945-46	1946-47	1947-48
Raw cotton ...	749	770	1,510	2,789	2,619
Cotton manufactures ...	4,262	3,760	3,280	2,942	3,600

(iv) *Tea.* Tea is one of our best earners and has been maintaining itself in war and post war years. India produces black tea. At the moment her only other competitor is Ceylon, as Indonesia is still in the throes of war. Green tea from China and Japan is being steadily ousted. For those who drink black tea for a year continuously, green tea becomes insipid. This is why it is expected that exports of Indian tea will maintain themselves.

The U. K. is our biggest customer, absorbing two-thirds of our total shipments. The U. S. A. is the second best customer. Exports of tea to Canada also have improved. Australia is another good customer, purchasing about Rs. 2 crores worth in a year.

Exports of Tea (In lakhs of rupees)

	1943-44	1944-45	1945-46	1946-47	1947-48
Tea	3,785	3,812	3,552	3,353	5,324

(v) *Oil-seeds.* Oil seeds were subjected to severe restrictions in war years. There was relaxation of controls in 1945-46 and the exports rose to Rs. 1,451 lakhs. Out of all the varieties, exports of ground-nuts are the largest. The U K. is our best customer. Our other customers are Australia, France, etc., who also purchase large quantities of seeds from us.

Exports of Oil-seeds (In lakhs of rupees)

	1943-44	1944-45	1945-46	1946-47	1947-48
Oil-seeds ...	11,15	10,53	14,51	6,45	10,50

(vi) *Tobacco.* India possesses in tobacco a source of considerable wealth. Smoking is increasing all over the world. The value of our export of raw and manufactured tobacco came to Rs. 666 lakhs in 1946. Considerable research is being sponsored by the Government and the Indian Central Tobacco Committee in South India. The U.K. has always been the best market for Indian tobacco. Due to dollar shortage the U. K. will purchase larger quantities of Indian tobacco in the future.

(vii) *Hides and Skins.* India exported Rs. 1,148 lakhs worth of skins in 1945 46. Of these raw hides were valued at Rs. 5 crores. The bulk of the shipment go to the U. K. and the U.S.A. There is a rising overseas demand for tanned skins and we can look to Continental countries too for custom.

Exports of Hides & Skins (In lakhs of rupees)

	1943-44	1944-45	1945-46	1946-47	1947-48
Hides and Skins, raw and tanned ...	851	820	1,148	829	

(*B*) *Imports.* Let us now discuss goods imported into India. The following table tells us the values of a few selected items among our imports for various years :—

Imports of some selected goods (In lakhs of rupees)

	Commodity	1943-44	1944-45	1945-46	1946-47	1947-48
1.	Food grains ...	31	809	919	1,710	5,390
2.	Liquors ...	125	108	179	267	91
3	Tobacco ...	160	290	391	338	316
1.	Oils ...	8,648	8,070	7,938	3,591	3,435
2.	Raw cotton. ...	1,753	2,401	2,287	2,430	4,377
3.	Wool ...	402	209	369	269	273
1.	Chemicals & medicines	209 497	287 688	364 605	1,359	2,486
2.	Cutlery & instruments	277	369	641	1,142	1,370
3.	Dyes and colours	829	792	1,141	1,198	1,829
4.	Electrical goods...	153	261	449	576	949
5.	Machinery ...	1,130	1,630	2,269	3,[illegible]55	7,511
6	Iron and steel goods	202	356	665	469	1,170
7.	Paper ...	196	291	578	980	979
8	Vehicles ...	127	436	605	1,772	2,859
9	Cotton manufactures.	133	154	185	397	1 298
10.	Woollen manufactures.	45	105	300	554	638

The import trade of the Dominion of India in private merchandise reached a record height of Rs. 429 crores in the last 12 months for which figures are available (December, 1947 to November, 1948). This upward trend in imports is mainly attributable to the urgent need of food and capital goods in the country. It is seen that imports of oils have gone down to Rs. 34 crores during this year from Rs. 80 crores in 1944-45, but still they are a fairly heavy item. Other important items of imports are food grains about Rs. 54 crores, raw cotton about Rs. 44 crores, machinery Rs. 75 crores, chemicals and medicines about Rs. 25 crores, motor vehicles over Rs. 28 crores and dyes and colours over Rs. 18 crores.

The bulk of receipts of fuel oils and lubricating oils are from Iran. India does not import much animal oil. Ceylon is our source of vegetable oils valued at about a crore of rupees. The U.K. and the U.S.A. were our main sources for all kinds of machinery, textile electrical and metal working. In fact our needs in most manufactured goods are supplied by these two countries.

As regards food grains, India has been going with a sort of begging bowl to almost all over the world. The U.S.A., Argentina, Canada, Australia, Pakistan, Turkey, Egypt, Russia, Burma and even Italy contributed their quota to satisfy the heavy needs of India in the way of food grains.

Imports of raw cotton from abroad have shot up to a little less than Rs. 44 crores in the last 12 months under review which is practically double of the imports in 1945-46. This is due to Pakistan having taken away territories which specialized in better staples. India has had, therefore, to import her needs of cotton from Pakistan, Egypt, Kenya Colony, Tanganyika territory and Sudan.

Other countries like Australia, Canada, Switzerland, France, Czechoslovakia and Japan also contributed their share in manufactured goods to satisfy the needs of India.

10. The Balance of Trade. India's balance of trade in years prior to the Second World War was almost always favourable. In the depression years starting with 1931, the balance gradually grew less favourable. India then started exporting gold to make good the deficiency. The urgent reason for the balance to be favourable in these years was that India had to meet certain charges known as "Home Charges". The following table shows the varying amount of Home Charges in different years :

Home Charges in some Years.

(Rate of exchange till 1920 was *1s. 4d.* to 1 Re.

Between 1920 and 1927 = *2s.* to 1 Re.

After 1927 = 1*s*. 6*d*. to 1 Re).

Average		In crores of rupees.
1909-14	...	29·5
1919 24	...	35·5
1929-30	...	42·1
1932-33	...	39·4
1935-36	...	38·1
1938-39	...	32·8

As the table shows, it is a pretty large amount which India had to pay by way of Home Charges to England. If India could not earn a favourable balance on her trade in private merchandise in any year she had to make up the difference by exporting gold. From 1931-32 to 1939-40 India had to export gold to the tune of no less than Rs 362 crores to make good the fall in the value of her exports. The sale of gold by the people of India who were in distress and lived upon their capital providentially came to the rescue of India's foreign trade and gave funds to the Government to meet their obligations of Home Charges abroad.

Home Charges. After all what are those charges which dominated the Indian Government's policy in regard to finance and exchange in the past ? Payments were due from India to the U. K. every year. To make these payments India had to have a favourable balance of trade. These payments were often criticized as 'a drain of wealth', a sort of tribute paid by India to England on account of her political subjection. The drain theory would have been quite correct if India had received nothing in the way of material wealth or immaterial services in return. Let us examine each of the items usually included under Home Charges and find out how far the criticism was right.

(*a*) *Interest on loans raised in England to finance railway and irrigation schemes.* When these loans were raised there was not enough capital in India to satisfy Government requirements. The position is, of course, different now. Secondly, the rates of interest in London were much lower than in India. All countries in the world that started late on the road of industrialization and stood in need of capital to finance big schemes went to London in those days to borrow money. India was in a more favourable situation as compared with other countries as she was a part of the British Empire and could get money at lower rates. Some Indian economists charge the Government with the misuse of the money borrowed. But that is a different story altogether. Individual householders make mistakes in spending their hard-earned earnings. Properly managed, the loans borrowed might have given India a few more miles of railway lines or canals. But that is about all the blame that attaches to the Government in this matter and the expenditure can in no case be styled a "drain".

(b) *Government stores charged against revenue.* Since the inception of the Indian Munitions Board, later merged into the Imperial Department of Industry and Commerce, Government stores have been purchased in India as far as possible, but still a good deal of expenditure had to be incurred in England.

(c) *Leave and furlough allowances, pensions and gratuities of all kinds and the cost of maintaining the Commissioner for India in London and the India Office.* Pensions and gratuities were paid to British civil servants working in India and earned by them. The question of Indianization was no doubt in the forefront and more and more Indians were being employed, but still there was a large number of Europeans working in India and they had to be paid. It has been said that unnecessarily high salaries and emoluments are paid to the foreigners. With Indians carrying on the work of administration the civil salary bill would have been comparatively much lighter. What is more, what the Indians would have earned would have remained in India with their experience. As it was, both were a loss to India.

(d) *Military and Marine Charges.* The British army in India was criticized on two grounds. It was asserted that it was too large for the defence needs of India. If it was meant more for Imperial purposes than the defence of India, a portion of its cost should have been borne by the U.K. In the year 1934-35, this was agreed to by the British Government in principle and they started contributing two crores of rupees a year to the maintenance of the army in India. Till April 1938, India contributed £100,000 annually to the British Exchequer for naval protection. Since then this contribution from India was given up on condition that India maintained six sea-going armed escort vessels.

The second ground on which the army expenditure was criticized was that a British soldier was more costly to keep than an Indian soldier ; therefore, British army units should be replaced by Indian units. The achievements of the Indian armies in North Africa, Italy and Burma in this war proved that the Indian soldier as a

It is a matter for congratulation, however, that due to enormous purchases made by the British Government in India during this war, all our sterling debt has been repatriated. From being a debtor country India has suddenly become a creditor country.

A vast accumulation of sterling assets stood to India's credit in London. The family pensions and provident funds of the Britishers who were in services in this country in February 1943, were capitalized. The railway annuities were also capitalized and Rs. 14 crores which were paid only on account of interest due on loans borrowed have been wiped off.

In addition to the four items enumerated above which constituted Home Charges, India had to make some other payments too. For instance, (*i*) a good deal of private foreign capital was invested in India, the interest and profits of which went out of the country every year. As discussed elsewhere, foreign capital is no doubt beneficial in some respects, but also brings in its train a long chain of evils. A good deal of our excess of exports over imports was accounted for by this item. (*ii*) In addition, the services of foreign shippers, bankers and commission agents had to be paid for. India still does not possess an Exchange Bank of its own, hence all earnings in this connection go out of the country. Besides these, large premiums and commissions have to be paid to the foreign insurance companies working in India.

Considering the pros and cons as discussed above the idea that Home Charges were a "drain of wealth" or a "tribute" from a subject country to her overlord is ridiculous. All the same, it will have to be admitted that there were genuine grounds for complaint which should have been remedied.

During the war years we have paid off our loans, funded our railway annuities as well as furlough allowances and pensions, and have thus wiped off our debt and emerged a creditor country to the tune of £1,000 million. This position is having a far-reaching influence on the trade of India as discussed elsewhere.

11. The 'Entrepot' Trade of India. India is very conveniently situated for trade between the West and the East. Goods from China, the East Indies and Ceylon find a convenient halting place on their way to Europe. Similarly, the goods from Europe are distributed from Indian ports.

There are countries like Tibet, Nepal and Afghanistan that have no seaboard of their own. Their exports and imports also pass through India. Wool and skins from across those countries flow through Lahaul and Kulu Valley into India and are sent to the U.K., and the U.S.A. In return textiles, sugar, tea, spices, etc., of foreign origin are taken in across India.

Indian re-exports went on increasing up to 1923-24 and then consistently fell till 1933 34. Gradually they have improved again. The following table gives an idea of the expansion in the last few years :

RE-EXPORTS (in crores of rupees)

1920-21	18	1944-45	17
1931-32	3	1945-46	24
1939-40	10	1946-47	23
1942-43	7		

There does not seem to be much of a future for India's *entrepot* trade, as every country wants to have direct bilateral relations or quota arrangements with others. Only those countries which are beyond the frontiers of India and are without access to the sea will use India as a passage for their exports and imports. Recently an Indo-Afghanistan trade treaty has been signed on a bilateral basis. This will result in exchanging the special products of this country with those of Afghanistan.

A brief study of the trade of India with Afghanistan could be of interest. Afghanistan has no sea frontier. India is her natural *entrepot*. The value of her trade with India for some years is given below :—

Average per annum from 1900 to 1905	Rs. 1,30 lakhs
1937-38	Rs. 5,87 „
1941-42	Rs. 9,52 „

During the war years after the declaration of war by Japan, India could not fill the gap left by that country in the trade with Afghanistan. Although trade fell, still Indian exports to Afghanistan actually increased. India exports cotton, tea, leather goods, scientific instruments, rubber goods, sugar, silk manufactures and livestock to Afghanistan and in return buys mainly fruits, nuts, vegetables, skins and furs, spices and wool. There is much scope for expansion of trade with Afghanistan The land frontier of India has been very greatly extended since the partition of the country into two Dominions. India is exporting a very large number of manufactured goods to Pakistan and is getting in exchange primary commodities like cotton, jute, wheat, salt and gypsum.

Customs posts have been established between the two Dominions but so far no figures of the land trade between the new countries are available. There is thus a great paucity of data regarding trade across the land frontier. It must be emphasized, however, that the future of our land frontier trade is bound up with the future of trade in general. India needs markets for her goods. A better understanding with Pakistan is, therefore, of great importance to this country. A fostering of harmonious economic relations with neighbouring countries is most desirable.

12. Trade Today : The Emerging Pattern. The foreign export trade of India should not unnecessarily distract our attention from her internal trade which in the long run is of fundamental importance not only from the point of view of Indian consumers, but also from the point of view of industrial development in the future "India has in her all the latent resources of raw materials, of power and human skill to make her a great industrial country. To develop her own industries to the fullest possible extent is the natural and proper ambition of all patriotic Indians." For this purpose the national Government will have to protect and subsidize key industries, like shipping, food, mining and heavy chemical industries. During war years, the Government of India definitely promised to help industries with a bright future in every way.

A Consultative Committee of Economists was established in 1941 to make recommendations on India's post-war trade policy It held several meetings and made some useful suggestions. The consensus of opinion in the last meeting was in favour of a multilateral trading system with suitable provisions for the development of Indian industries; failing which bilateral agreements, mainly with countries of the sterling bloc, were favoured. The war has taught us that an industrially weak India is not a world asset, but a liability and that India, not properly equipped, is as much a menace internally as a menace to world peace.

At the close of hostilities in 1945, various big Indian industrial magnates, including Messrs. Birla, Shroff and Tata, paid visits to the U.K. and the U.S.A. to arrange purchases of capital goods for Indian industry. Mr. Ardeshir Dalal, the Planning Member of the Government of India, also visited these countries with the same object. It was found that the United Kingdom was not in a position to supply India's needs in this respect to any extent for at least two years to come. Only the U.S.A could do so but she wanted to be paid in dollars. India had no dollars to her credit. She, however, owned about Rs. 1,500 crores of sterling bonds. Hence, her most urgent need was to have a fair portion of these sterling balances, say Rs. 100 crores worth a year, converted into dollars to enable her to buy capital goods in the U.S.A.

India has had to face large deficits in balance of payments against her foreign trade. The deficits would have been substantially greater if a restrictive import policy had not been adopted. Deprived of both consumer and producer goods during the war period, India had to make up large arrears. A much more important reason has cropped up in the import of food grains in huge quantities. India had been regularly importing food grains from abroad since the separation of Burma, but recently the quantities and prices have been going up. The figures of the value of food grains imported during the last few years are as follows :—

1944-45	Rs. 14 crores	
1945-46	Rs. 24 ,,[1]	
1946-47	Rs. 89 ,,	
1947-48	Rs 110 ,,	approximately.
1948-49	Rs. 130 ,,	

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[1] A further Rs 15 crores were spent on supplementary food articles.

Our trade policy in the future should be to utilize our raw materials for industrial purposes in the country. We are not in a position to export raw jute and raw cotton now. Of the former we can hardly get enough from Pakistan for the consumption of our own mills. As time passed, Pakistan would try to set up her own jute mills and consume some raw jute herself, and export the rest to the best paying markets. At the moment she has no mills and her exports through Chittagong are limited due to its lack of capacity. Hence a good deal of Pakistan jute must flow through Calcutta.

As a consequence the improvement in the composition of our trade will depend on our building up the necessary heavy goods industries. We have established contacts with Middle East countries through exports of textiles. We can maintain them or even enlarge them. But we must bear in mind all the time that our exports are meant mainly for the purpose of getting necessary capital goods from abroad. At the same time we have to control imports into the country with a view to protecting national interests. During the last year and a half the Government of India has been liberalizing or contracting import licences according to the needs of the country.

India has been transformed into a creditor country from being a debtor country. She has wiped off her sterling debt of £332 million and has thus saved herself from the payment of Rs. 14 crores of interest annually. On the other hand, as the sterling assets standing to India's credit in England cannot be changed into dollars which she needs to purchase goods from hard currency countries, India has had to borrow £92 million from the I.M.F. to pay off her deficit. She has also had to ask for a loan of Rs. 150 crores from the I. B. to finance her long-term agricultural and transport projects.

With the help of these loans, it is believed, India, within three to five years will be in a position to do without imports of food grains from abroad. She will thus be able to balance her payments easily, for it is seen that her balance is unfavourable by less than the value of food grains imports.

Besides, India is now free to mould her trade policies as she pleases within the commitments she has made to the International Trade Organization at Havana. Accordingly she has entered into a number of bilateral, trade treaties with a large number of countries including France, Czechoslovakia, Japan, U.S A , Egypt, Australia, Pakistan, Germany, Iran, Afghanistan, etc. The general trend of these treaties or other pacts is to import heavy capital goods and foodstuffs and to export in return jute, tea, mica, manganese, oilseeds, hides and skins or consumer goods it needed or available.

There is no harm if India's balance of visible trade is unfavourable for a few years provided she gets all the plant and equipment she needs from whichever source they are available. India's objective should be to attain national self-sufficiency as early as possible so as to employ her men and material to the maximum capacity and thus raise her standard of living. These developments will have far-reaching results : put a stop to the increasing numbers as well as kill discontent and check the ever-advancing waves of Communism.

Rising living standards will naturally affect the volume and contents of our trade. We shall need capital goods all the more and may have to import them from U K., U.S.A., Czechoslovakia and even the U.S.S.R., as Germany and Japan are still out of the picture. There will also be increasing imports of consumer goods, especially luxury goods. Both imports and exports will increase. Exports of industrial and raw materials will decrease and those of light consumer goods will take their place. In the reverse direction imports of primary commodities and industrial raw materials into India will increase. A carefully planned trade is called for in these circumstances.

We may then conclude that the crux of the problem is that our balance of trade with hard currency areas is unfavourable and that there is scarcity of dollars. In order to solve this problem India has concluded many new trade agreements and is negotiating some more. For the same reason trade controls are being continued in India Export and Import Advisory Councils have been appointed, and trade delegations have been sent abroad and those from other countries being received here.

13. India and the International Trade Organization. After the war of 1914-18, the peace-makers saw no need for economic cooperation on an international basis. It was expected that nations would return to the gold standard and the "old normal" conditions. It proved a chimera, an impossible dream. Luckily it has been realized today that the world would slip back into the chaos of competitive controls and restrictions unless the major countries joined hands together to stop this tendency. Before the war of 1939-45 there was no free world markets. National economic systems had sprung into existence and a policy of protectionism and restrictive fiscal autonomy made trading conditions precarious. Governments interfered with international transactions and resorted to discrimination. Now joint action is felt to be an urgent necessity to prevent world trade from being restricted as it was in the 'thirties. It is seen that most nations have common fears, problems and desires. Such problems can be solved only by common action and are proper subjects for international collaboration.

The idea of international collaboration has been in the field for a long time. It was embodied in the Atlantic Charter in 1941. It found expression in the Mutual Aid Agreements in 1942, and the Bretton Woods Agreements in 1944 It led to a renewal of the Trade Agreements Act in 1945 and the Anglo-American Financial Agreement in 1946. It gave birth to the International Trade Organization which held its first meeting at Geneva in 1947 and its second conference (58 nations were represented) at Havana in March, 1948 Out of the 58 countries, 53 actually signed the Charter of the I. T. O. India was one of the signatories.

Briefly speaking, the Committee has considered the work of various sub-committees (six in number) and arrived at the following conclusions over the various issues involved :

(1) *Quantitative Restrictions and Exchange Controls.* The London Draft says that "no prohibition or restriction, other than duty, taxes, or other charges, shall be imposed or maintained by any member country on the importation of any product of any other member country, or on the exportation or sale for export, of any product destined for any other member country."

The following exceptions are, however, permitted :—

(*i*) Transitional prohibitions designed to affect the equitable distribution of products in short supply, the maintenance of war-time price control and the orderly liquidation of Government war surpluses.

(*ii*) Temporary restrictions to relieve critical shortages of food-stuffs and other essential products.

(*iii*) Controls under inter governmental commodity agreements.

(*iv*) Import controls by a country as a means of safeguarding its balance of payments. Here the test is the member's need (*a*) to stop or to forestall the imminent threat of a serious decline in the level of monetary reserves, (*b*) in the case of a member with very low monetary reserves to achieve a reasonable rate of increase in its reserves.

Any member may complain that another member is employing restrictions which are damaging to its trade. The I.T.O. in consultation with the I M F., will consider the complaint and recommend adjustments, which, if not complied with, will bring penalities in the shape of withdrawal of tariff concessions from member countries. Members may request the I.T O. to give prior approval to restrictions which it desires to impose.

It may be said that these exceptions have been dictated not by political expediency but by economic necessity.

(2) *Tariffs and Preferences.* Members of the I T O. are committed to enter into mutually advantageous negotiations directed toward the substantial reduction of tariffs and the elimination of preferences. The general rule requires members to accord to one another general unconditional most-favoured-nation treatment. Thus all tariff reductions will be on a multilateral basis and concessions will be granted to every member country whether a party to the negotiation or not Countries like India will not have to grant concession on products of an industry they want to protect

(3) *Employment.* The London Draft provides that each member of the I. T. O. "shall take action designed to achieve and maintain full and productive employment and high and stable levels of effective demand within its own jurisdiction through measures appropriate to its political institutions and compatible with the other purposes of the Organization."

4. ***Economic Development.*** Under the London Charter war-weakened nations are allowed to rehabilitate themselves with the help of quantitative controls in trade while economically backward countries, mainly on the advocacy of India and China, were permitted to carry on their programmes of industrialization, by regulating foreign transactions.

5. *Restrictive Business Practices.* The Draft says "that each member shall take all possible steps to ensure that enterprises within its jurisdiction do not engage in practices which restrain competition, limit access to markets, or foster monopolistic control".

6. *Commodity Agreement.* The circumstances under which Governments may enter into agreements regulating the production, export, import or prices of primary commodities are carefully defined. Such agreements are limited in duration and are subject to periodic review. As a result of the efforts of the Indian delegation another clause was added to the objectives of inter-governmental commodity arrangements in the following terms: "To moderate pronounced fluctuations in the price of a primary commodity above and below the level which expresses the long-term equilibrium between the forces of supply and demand."

Two other important objectives have also been added, *viz.*, (1) the maintenance and development of the natural resources of the world and protecting them from unnecessary exhaustion and (2) the expansion of the production of a primary commodity which is in such short supply as to prejudice the interests of consumers.

To have a common basis of agreement for 50 odd countries is not a light task. A formidable hurdle has indeed been crossed by making all these nations with hetergeneous aims agree to a common principle. Even a greater achievement is that the I.T.O. is authorized to interpret obligations, issue rulings, hear complaints of non-compliance and has power to bring pressure to bear on member States and force them to comply with its decisions. I.T.O.'s actions will be backed by the power to restrict advantage gained from the charter and thus punish the violating nation.

This Trade Charter is indeed a momentous landmark. The League of Nations could not succeed in this direction in its time. The agreement involves long-term planning for the orderly development of international trade. At the same time it recognizes that a healthy international trade depends on the reconstruction of the war-devastated areas like France and Germany and the economic progress of backward areas like India. The only fly in the ointment is that Russia and the Communist countries did not join.

As a result of this charter the trade of the Dominion of India which is now free to shape its trade *policies* is progressively on the increase. She has secured most favoured nation treatment in all countries signing the protocol and is thus in a position to compete with her textiles in the Middle East and Australia.

The charter, thus, is responsible for directly stimulating a flow of goods, within the world.

CHAPTER XXV

INDIAN FISCAL POLICY

1. Importance of the subject. The fiscal policy pursued in the past has had far-reaching effects on the industrial condition of the country. Its study will lead us to conclusions which might help in moulding opinions and policies to be adopted now that the war is over. On this policy would depend the fate of many 'war babies' as well as of old industries that will have to face the full blast of competition from foreign countries. Hence an intensive study of the problem at the present moment, when the war has thrown all previous relationships overboard and a reorientation of fiscal policy is in the offing, is of supreme importance to the student of Economics. Recently the Government of India have appointed a Fiscal Commission consisting of six members under the presidentship of Mr. Krishnamachari to make recommendations regarding the fiscal policy to be adopted by the Government in the new set of circumstances. This makes the study of the problem all the more urgent.

2. Fiscal policy of India till 1923. Period of free trade. The classical writers upheld the theory of free trade. They believed that every country should concentrate its energies in the production of commodities for which it was best fitted and import other goods from foreign countries similarly situated in relation to them. England had the good luck to have had a long start in the race for industrialization. Her industries had established themselves before any other country thought of making any systematic efforts to follow. England thus stood in need of plenty of raw materials to convert into finished goods and big markets to sell the latter in. Free trade suited her and her economists advocated this doctrine in the belief that what was good for England was equally good for the rest of the world. Canada, Australia and other colonies of England, including India, had to follow in her wake willy-nilly. The first two had to make a severe fight to emancipate themselves from these trammels; while India's fiscal policy was largely governed by British interests.✓ Up to 1923 India followed a cent per cent policy of free trade and whatever duties were imposed on incoming goods were for revenue purposes only. Even these often resulted in a great outcry on the part of Lancashire and in some cases countervailing excise duties were imposed. The long line of Finance Members during all these years were deeply dyed in free trade colour and religiously believed in its efficacy, as a measure of relief for the poor Indian consumer; and even when they did impose customs duties in times of financial stringency, they felt very apologetic over it and expressed heart-felt sympathy for the

British manufacturer. Lord Curzon stated in a letter to the *London Times*, in 1908, that "ever since India was ordered to abolish her customs tariff in 1875, it has been in the main in response to Lancashire pressure that the successive readjustments of this policy have been introduced " Thus, if the duties imposed for mere revenue purposes did result in creating any industries, they were lowered with the double object of correcting the tendency and increasing customs income.

The war of 1914-1918 compelled the Government to raise the tariff. They found it impossible to lower it after the war was over due to their need for more money. In 1922 the total Indian customs revenue was Rs 32,14 lakhs as compared with Rs. 9·24 lakhs in 1909-14, being 24·4 per cent. of the total revenue in place of only 13·9 per cent. These revenue duties happened to give some protection to a few industries in an unscientific manner but the Government were always uncomfortable and "from 1919 onwards their efforts were constantly aimed at wriggling out of the situation that had arisen."[1]

3. Arguments for protection in India. The main arguments for protection are given below.

(i) *The Infant Industry Argument.* Time is required for the development and growth of various elements of productive power, *i.e.*, for the training of labour, mobilization of capital, for giving experience and knowledge to the entrepreneurs, and for learning and developing the necessary technique. During the time industry is acquiring these essentials and sprouting forth, it must be sheltered, otherwise it will be blasted by foreign competition. A child requires crutches to learn walking. He must grow up before he can be expected to wrestle with a grown-up man The force of this argument has been recognized by economists of authority like Marshall and Pigou. Some Indian industries are undoubtedly in a state of infancy. To protect them from the competition of giant foreign concerns is absolutely essential, otherwise they will have little chance to grow. Lala Harkishan Lal speaking about Indian industries to the Fiscal Commission said : "Nurse the baby, protect the child and free the adult." This is a maxim whose validity cannot be seriously questioned.

(ii) *For Diversification of Industry.* For the all-round development, mental and physical, of the nationals of a country, a large variety of employment is essential, for, an occupation that a man follows has an intimate bearing on the development of his personality. No nation likes to be a nation of shopkeepers, clerks or agriculturists only. The quality of employment is as necessary as quality. It is, therefore, necessary to develop industries even though they do not conform to the principle of comparative costs, *i. e.*, even though all conditions are not congenial for growth. Only protection can enable such industries to develop. We have as yet developed a few major industries. To develop others protection will be necessary. Specialization in only one or two directions is like putting all one's eggs in one basket. There is a great risk of coming to grief.

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[1] B. K. Adarkar—The Indian Fiscal Policy, p. 422.

(*iii*) *For Defence.* Adam Smith says, "Defence is better than opulence." Dependence on foreign countries for some essential commodities proves dangerous in times of war. For a few years preceding World War II, many countries, especially Italy and Germany, were making frantic efforts to grow or manufacture certain essential articles which they had to import, for war cuts off foreign supplies. This argument has a special force in case of 'key' or basic industries or food industries, the produce of which is essential for existence. In the last war India was not able to play the part it could have played if her important industries had been properly developed.

(*iv*) *For Self-sufficiency.* In case a country desires to be economically independent, it might develop various types of manufacturing industries through the aid of protective duties. But isolation is neither feasible nor desirable. In view of the present developments in the means of communication and transportation it is impossible to attain self-sufficiency for years to come. If attempted it will only divert the economic resources of the country into less remunerative channels. If, however, circumstances necessitate the adoption of such a policy, then a country like India will be within a measurable distance of realizing this aim.

(*v*) *For Key Industries.* Foundation of a country's industry will be merely on sand if it has to import the necessary basic materials like iron and steel and chemicals from abroad. Still the application of protection for the development of basic or 'key' industries seems to be most urgently called for. The development of such industries should claim the first attention. No efforts should be spared for the purpose, and key industries should be established within the country even if an essential raw material has to be imported. As it is, such an exigency will not arise in India as she is rich in almost all essential raw materials like steel.

(*vi*) *Against Dumping.* If another country dumps goods in our markets with a view to driving the goods of some home industries out of the field, protection is necessary in sheer self-defence. It is possible that the foreign country is working with the motive of capturing our markets by undercutting prices now and making up the loss by raising price later when the home industry has been destroyed. No nation can permit her industries to be destroyed in that manner.

(*vii*) *Against Bounty-fed Goods.* The home manufacture must be protected against competition from goods which are supported by State bounties in their own country. The bounty from the State gives them an unfair advantage which it is the duty of the home Government to remove by imposing a protective duty. Indian sugar industry was killed by bounty-fed sugar from Europe.

Later protection helped India to produce enough sugar to meet all her requirements.

(*viii*) *Against Goods coming from Countries with Depreciated Currencies.* Depreciation of the yen (Japanese currency) in the 'thirties neutralized to some extent the protection granted to our cotton textile industry and the measure of protection had to be increased. The country with a depreciated currency is able to export more goods. The purchasing country has to pay less of her currency per unit of the currency of the exporting country and is naturally tempted to buy more from a country with a depreciated currency. It then becomes the duty of the other country's Government to negative this artificial and undue advantage.

(*ix*) *For Revenue.* Sometimes protective duties are advocated on the ground that they will bring additional revenue into the State coffers. To some extent it is true. A moderate measure of protection does bring some revenue. But it should be borne in mind that there is inherent antagonism between revenue and protection. If the Industry has been given effective protection, foreign goods will have no chance to sell. They will not be imported and there will be no revenue. In 1934 proceeds from duty on sugar imported into our country considerably dwindled and the Government had to impose excise duty on sugar to make up the loss. If therefore, a country wants more revenue, it cannot get it by prohibiting the import of goods through heavy protective duties. It can secure revenue only if foreign goods are allowed to come in large quantities and moderate duties are imposed on them. That means home goods will meet keen foreign competition and there will be no protection. Either you can, therefore, give protection or get revenue. Further, protection through revenue duties is not sound policy, for it will mean uncertainty and lack of continuity. If therefore, protection is to be given no extraneous considerations of revenue should be permitted to enter.

(*x*) *For increasing Employment.* Another ground on which protection is urged is that the development of industries will, in the long run, create a large volume of employment in the country. On grounds of pure theory this argument is unsound. As exports pay for imports, the country will be able to export less, if it imports less. Thus the expansion of her import industries will be counterbalanced by contraction of the export industries and the volume of employment may not be affected. But in the case of India, the argument has some applicability, for our export industries, for the time being, hardly exist. Our raw materials are indispensable to others. If by means of protection we are able to eliminate foreign goods from our markets a vast field will open out for the expansion of our industries and the volume of employment will undoubtedly increase. Our economy is at present unbalanced. To restore a proper balance between agriculture and industry is our prime need. A policy of effective protection will be eminently suitable for this purpose.

(*xi*) *For its Popularity in India.* Indian sentiment has been and is strongly protectionist. The remarkable progress of industries in the U. S. A., Germany and Japan under the policy of protection, a recent swing-round to this policy in England herself, and the ruin of Indian industries under the policy of free trade have made all educated Indians ardently desire protection for Indian industries, so much so that they are sometimes prone to regard protection as a panacea for all the industrial ills in the country. If, therefore, a vigorous protective policy is pursued it will have a strong popular support.

4. Drawbacks and dangers of protection. But protection is not a painless remedy. It involves suffering, sacrifice and danger which must be intelligently appreciated and understood and carefully avoided or minimized. *In the first place, imposition of protective duties will raise the prices of protected articles* and the consuming public will have to pay higher prices. The agriculturist who has no surplus to sell and the worker, whose wages will generally lag behind the increased cost of living, will have to make some sacrifices.

Secondly, whereas the public loses, the rich manufacturers gain. This accentuates the inequalities of wealth distribution by adding to the wealth of the already rich and requiring the common man to make a sacrifice. The Tariff Boards and the Government of India have steadily kept in view the interests of the consumer. We cannot, however, agree that the burden of protection is borne entirely by the poor masses in India. With the exception of matches and salt, the articles turned out by the protected industries, like iron and steel goods, sugar, fine cotton fabrics, cement, paper, etc. are not articles of consumption for the poor masses. The burden, in their case, is largely borne by the middle classes and they do not mind it so much because they can better understand where the good of the country lies.

Thirdly, the industries in the unprotected category will be hit because they will have to pay higher prices for some materials or pay higher wages without having any compensatory advantage like the industries enjoying protection. Cotton handloom industry has suffered from protection granted to the cotton mill industry. This is the reason why some allied industries had to be given a corresponding measure of protection when the iron and steel industry was given protection.

Fourthly, there is the danger that vested interests will be created by protection. The industries that will secure protection will be found to be highly reluctant to part with it. They will strain every nerve to retain it Thus the 'infants' may remain 'infants' and refuse to admit that they have grown up. But this danger can be obviated by withdrawing protection on the ground that the industry is incapable of benefiting by it.

Fifthly, there is the danger of political corruption. Powerful corporations in America set aside huge sums in bribery funds to be systematically spent in influencing legislators or the election of legislators. Once therefore protection has been granted, it may not be so easy to withdraw. But the Fiscal Commission did not foresee any such danger in India, as Indian legislatures were composed of too many heterogeneous elements to allow this evil to prevail to any large extent.

Lastly, protection is regarded as 'mother' of Trusts. It is the experience of Germany and America that once foreign competition has been eliminated the home manufactures form combinations in order to reap monopoly benefits. Although an All-India Sugar Syndicate and a big merger, the Associated Cement Company, have been established in India, yet the combination movement has not made much headway here. Further, combinations are no longer regarded in the West as inimical to public interest and the combination movement has been consciously fostered by the State.

On the whole, therefore, we find that a policy of protection in India is not only desirable but necessary. Its dangers have been exaggerated and costs magnified. This does not mean that we can launch on an indiscriminate and a blind policy.

5. Circumstances leading to discriminating protection. During the war of 1914-18 the Government of India realized that without industries. India was more a source of danger than of help to the British Empire. Hence they determined to establish some industries. Accordingly an Industrial Commission was appointed in 1916 which submitted its report in 1918 and recommended that the Government should play an active part in the development of Indian industries so as to make the country self-sufficient "in respect of men and material." During the war the British Parliament also committed itself to the political advancement of India. Such an advancement was impossible without the grant of at least some fiscal freedom.

6. The Fiscal Autonomy Convention. Since Parliament was not willing to concede full fiscal autonomy to India by Statute, a compromise was suggested by the Joint Select Committee on the Government of India Bill, in these words: "Whatever be the right fiscal policy for India, it is quite clear that she should have the same liberty to consider her interests as Great Britain, Australia, New Zealand, Canada and South Africa have. In the opinion of the Committee, therefore, the Secretary of State should as far as possible avoid interference on this subject when the Government of India and its legislature are in agreement and they think that his intervention, when it does take place, should be limited to safeguarding the international obligations of the Empire or any fiscal arrangements within the Empire to which His Majesty's Government is a party." This is the famous Fiscal Autonomy Convention.

A convention, it may be noted here, is a custom, tradition or practice, which is generally accepted though it has no basis in law. It has the same force and prestige as law, if so accepted.

This principle was accepted by the Secretary of State and it became the basis of future commercial relations between India and the United Kingdom. Following this Convention the Secretary of State refused to interfere with the cotton duties imposed by the Indian Government when he was approached by Lancashire interests in March 1921.

Criticism of Fiscal Autonomy Convention. The Convention has been criticized on various grounds. It is said that it could not have any great practical value, since it could only operate if certain essential conditions were fulfilled. These conditions were difficult to fulfil in actual practice. The first condition was that the Government of India and the Indian legislature should be in agreement with each other. While the Government of India was an irresponsible foreign bureaucracy, the legislature represented the aspirations of a subject people. In their normal relations they were more in conflict than in agreement. The Government of India could never agree to a policy, however advantageous to India, which involved any sacrifice of British interests.

The second condition is that purely Indian interests should be involved. What exactly does this expression mean ? In the modern interdependent world it is hard to take a step which involves only the interests of one country.

Further it is pointed out that even the Indian legislature did not adequately reflect the real opinion of the Indian people. It was not composed (under the Act of 1935) of entirely elected representatives. A fairly large proportion consisted of officials and nominated non-officials who in matters of important issues always voted with the Government.

Most people, therefore, think that the method of conventions did not effectively grant autonomy to India in fiscal matters. The issues hinged mostly on the personal idiosyncrasy of the Secretary of State.

7. The Fiscal Commission. In the meantime a resolution had been moved in the Imperial Legislative Council in February 1920, recommending the appointment of a committee of the Council to report on the desirability of the policy of Imperial Preference. This committee suggested the appointment of a Commission to examine the whole fiscal policy of India.

In 1921, therefore, the Government of India announced the appointment of the Indian Fiscal Commission " to examine, with reference to all the interests concerned, the tariff policy of the Government of India, including the question of the desirability of adopting the principle of Imperial Preference and to make recommendations." The Commission in their Report recommended discriminating protection.

Its recommendation—Discriminating Protection. According to this policy, protection is not to be accorded indiscriminately to every and any industry. But the case of an industry claiming protection is to be carefully examined and protection is to be granted only if it satisfies certain conditions, so that the dangers inherent in protection and the sacrifice involved should be minimized. The conditions laid down by the Commission in this connection are popularly known as the "Triple Formula."

8. The Triple Formula. A triple formula embodied the conditions which had to be fulfilled by the applicant industry before it could be granted protection. This formula was as follows:

(*i*) The industry to be protected must possess natural advantages, such as plenty of raw materials, cheap power, sufficient labour and a large home market without which the industry would become a permanent burden on the country.

(*ii*) The industry must be one which, without the help of protection, was either not likely to develop at all or not rapidly enough to serve the interests of the country.

(*iii*) The industry must be one which eventually would be able to face world competition without protection.

Subsidiary Conditions. In addition to the above formula the Commission laid down a few more conditions of a lesser importance: (*a*) An industry which could produce on a large scale with increasing returns or diminishing costs was to be considered as more suitable for protection. (*b*) An industry which was expected to meet the entire needs of the country in course of time, was recommended a preferential consideration. (*c*) An industry essential for national defence, as well as basic and key industries were recommended protection even if it did not fulfil the above conditions. (*d*) Special measures of protection were recommended against the imports of goods dumped into India, or if the goods came from countries with a devalued or depreciated currency and thus gained an unfair advantage over Indian manufactures. (*e*) Similar steps were recommended against bounty-fed imports.

Recommendations Analysed. The majority of the Commission were solicitous that the industrial development of India should not take place at the expense of British interests. They plainly stated: "We do not forget that the U.K. is the heart of the Empire, that on its strength depends the strength and cohesion of the Empire...... Unless the U.K. maintains its export trade, heart of the Empire will weaken and this is a contingency to which no part of the Empire can be indifferent." That is why the recommendations of the majority for protection of Indian industry were so halting in nature and were so much hedged in by provisos and conditions.

The minority, too, led by the president, did not want "indiscriminate protection" but they did want India to be treated as an infant country, which in effect she was from the industrial point of view. They recommended her a liberal dose of protection and less delay in granting it.

Whether protection should be granted to young or old industries, no hard and fast rule can be laid down. In the case of old and established industries, there is generally some valuable data to go upon and consequently there is less risk and uncertainty in granting protection to such industries as compared with those which are comparatively young. But in the case of young industries reliable data may be obtained from other countries and hence there may be surer grounds for protection, whereas in a new branch of an old industry there may be greater element of speculation. At any rate some element of uncertainty there is bound to remain, whether the industry is old or young. Generally the policy of discriminate protection is intended to help young industries but sometimes an old industry may have to be rescued from a difficult situation and protection may be the only means of doing so. The young industries may be helped by bounties rather than by import duties. But it is not the age of the industry which is the criterion for granting protection. The criterion is the fulfilment of the chief conditions laid down by the Fiscal Commission.

As for the measure of protection, several considerations have to be taken into account. The rate is not to be so high as to involve an unnecessarily heavy burden on the consumer or to send the industry to sleep and leave it no inducement to make any improvements or effect any economies. In order to arrive at the fair selling price, costs of production of an average firm must be taken and not those which are either at the top or at the bottom, because the aim is not to prop up weak and inefficient concerns but to assist the reasonably efficient ones.

9. **Indian Tariff Board**. The Fiscal Commission recommended the appointment of an Indian Tariff Board to carry on necessary investigations into the claim of an industry for protection and make suitable recommendations. It was supposed to be a body of experts, an *ad hoc* body constituted from time to time whenever the case of an industry for protection had to be considered. It generally consisted of a president and two members. It conducted a detailed inquiry into the conditions of the industry by making a study at the spot. It examined witnesses and considered memoranda from various individuals and organizations who desired protection or who were likely to be affected if protection was granted. It was for the Tariff Board primarily to consider whether the conditions laid down by the Fiscal Commission for the grant of protection were fulfilled by the industry. After making a full inquiry and after considering all the relevant facts, it made a recommendation to the Government regarding the measure and the period of protection. The Tariff Board was also called upon to review the whole matter on the expiry of the period of protection. In short, the application of the principles of protection depended on this body. Thus the realization of the aims of the policy of protection largely depended upon the composition of the personnel of the Board and the spirit in which they worked. If they interpreted

the conditions in a reasonably liberal manner, protection might be productive of good results, and if, on the other hand, they adopted too rigid and unsympathetic an attitude, nothing might come out of this policy. The first Tariff Board was appointed in 1924 in connection with the iron and steel industry and the last in 1939 for sericultural industry.

10. Discriminating protection in practice. (*i*) *The Iron and Steel Industry.*—Several major industries were given protection. We shall deal with them by turns. The modern iron and steel industry came into existence with the establishment of Tata Steel Works at Jamshedpur in 1907. The Company started producing steel in 1913 and made remarkable progress during the First World War. After the war was over, the industry had to face severe competition from abroad and incurred heavy losses. Its case was referred to the Tariff Board in 1923, who found after inquiry that in a few years India could be made capable of producing enough steel for her domestic requirements at as low a cost as obtained in other countries. On the basis of making up the difference between the import price of steel and its fair selling price in India, the Tariff Board recommended duties ranging between Rs. 30 and Rs. 45 per ton for three years. Enquiries were made from time to time in the position of the industry (in 1924, 1925, 1926 and 1933). In the last inquiry in 1933 protection was continued for a further period of seven years, till 1941, when the Tata Company asserted that they would be in a position to "meet all contingencies" such as the withdrawal of protection.

As a result of this protection, halting and grudging though it was, the iron and steel industry of India has made a rapid progress and has turned out to be the prize-boy of the donors of protection. Today the industry pays a heavy excise duty and fills a big gap in the Government exchequer. Thus it paid no less than Rs. 372 lakhs to the Government in 1939-40 in one way or the other. The consumer has not had to carry any extra burden due to progressively falling costs of production while the labourers employed in the Tata Company are believed to enjoy almost all amenities of life possible to people of their status and condition in any country of the world.

The war has given a great stimulus to the industry. It is estimated that it will be able to hold its own against world competition without Government help now. Many subsidiary industries have sprung up round the main industries. A number of special steels are being manufactured and India is meeting a large proportion of her need for tool steel, taps, dies and small machine tools of special quality herself. The Tata Iron and Steel Co. have put up a new plant for the manufacture of wheels, tyres and axles for railway rolling stock and are helping to manufacture locomotives as well as rolling stocks at Mihijam (Chittaranjan) Workshop.

India produced 28 per cent more of steel in 1942-43 than in 1938-39. Most of the output was absorbed by Government for war, and civilian consumption was cut down largely. No steel or iron goods could be obtained during the war without licence from the Iron and Steel Controller. It is obvious that the vast reservoir of private demand which was thus built up will insure the industry against any dislocation for many years.[1]

It gives employment to no less than 1,00,000 people. Its progress under protection can be judged from the following figures :

TABLE I

Production of Finished Steel (in Indian Dominion)

Annual Averages (In thousand tons.)

1939......731	1942	1945
1940......866	1943	1946
1941......999	1944	1947

These figures show that the production of steel had been going down in India during the recent years. As a matter of fact the mills have not been working to their full capacity. The shortage of coal, labour troubles and transport difficulties have stood in the way. The partition of India into two Dominions led to a dearth of technicians. Besides, wagons were not emptied and returned quickly enough. As these difficulties are overcome the existing steel mills will work to their full installed capacity, but even this much production would not be enough for the increasing needs of the country. This is the reason why the recent Industries Conference has recommended the establishment of two new mills in the country. For the same reason imports too have been on the increase.

(*ii*) *Cotton Textile Industry*. The cotton industry in India is a very old one and can in no case be called an infant industry. But due to several causes such as over-capitalization, the loss of China trade in yarn, the higher labour costs in Bombay and Ahmedabad, the higher cost of fuel, etc., in Bombay, the Bombay industry was in difficulties in the middle, twenties. The matter was referred to the Tariff Board in 1926 who made an intensive inquiry into the circumstances of the industry and came to the conclusion that the cotton industry deserved protection on the following grounds :—

(a) The Japanese yen had been progressively depreciating from 27*d.* in 1923 to 14*d.* in 1935. This depreciation helped exports of Japanese textile goods to India greatly.

(*b*) The Japanese mills worked on a double-shift system and though the wages paid to the textile workers in Japan were a little higher than in India, their average production per head was very much greater. It has been reported that a worker in Japan attended to six hundred spindles for a wage of Rs. 1-14-6 a day with an efficiency of 90%, while a spinning boy in Bombay looked after 181 spindles for a wage of Re. 1 per day with an efficiency of little over 85%.

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[1] The review of the Trade of India—1942-43, p. 38.

(c) This industry was the biggest national industry of India with a total capital investment of Rs. 42 crores and gave direct employment to 4½ lakh workers and, therefore, needed protection urgently.

(d) Japan had rationalized its industry while the full blast of world depression had hit the Indian industry hard. Statistics show that while the imports from Japan increased from 103 million yards of piece-goods in 1922-23 to 425 million yards in 1938 39, the imports from the U.K. as well as from other countries had declined at a quick rate. Thus British imports had gone down from 1,440 million yards in 1922-23 to 205 million yards in 1938 39 while total imports had gone down from 1,577 million yards to 647 million yards during the same period The definite increase in Japanese imports from 1921 onwards was mainly due to the depreciation in the yen.

As a result of these factors working against the Indian industry, the number of Bombay textile mills went down from 80 to 68 between 1925 and 1935. There is no doubt that there were defects in the organization of the industry at Bombay but many of these defects were gradually eradicated, *e g.*, much capital was written down and the managing agency system, too, was later on got rid of.

Accordingly, the Tariff Board recommended protection to the cotton textile industry in ever-increasing doses. For instance, the duty on twist and yarn was fixed at 6¼% *ad valorem* or 1⅞ annas a lb. (whichever was higher) and on cotton piece-goods of British origin 25% *ad valorem* and on goods of non-British origin 31¼%. Later due to exchange-dumping from Japan, the duty on piece-goods of non-British origin was raised to 50% *ad valorem.* It should be noted that the lower duty on British goods gave a definite advantage to the British manufacturers who, as a result, partly shared the Indian market at the expense of Japan.

As a result of this protection, though it was belated and entirely an anti-dumping measure and was not meant for developmental purposes, the Indian textile industry was greatly benefited as is clear from the following table :—

TABLE II.[1]

Year	Cotton twist and yarn in millions of pounds		Piece-goods in yds.	
	India	Imports.	India	Imports.
1926 27 ..	807	49	2,258	1,788
1938-39 ...	1303	36	4,269	647

The total normal requirements of mill-made cloth in India are no more than 5 000 million yards. There is hardly any room for doubt that after we are able to replace the machinery worn out during the war, we shall not only be able to attain self sufficiency but shall also be in a position to satisfy some of the needs of the Middle East countries to whom we have been exporting textile goods during the war.

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[1] Statistical Abstract of India. Figures from August 1947 are for the Dominion of India only.

The following table shows the total production of piece goods and their exports during some war and post-war years :

TABLE III

Production, Cotton Manufactures [1]

Year	Yarn (Million lbs.)	Piecegoods (Million Yards).	Exports of piece-goods. (Million yds.)
1930	1,277	4,092	...
1943	1,685	4,751	...
1946	1,3 8	4,025	318
Aug 1947 to July 1948	1,3 5	4,030	202

(iii) *Sugar Industry.* Sugar cane is an Indian plant and has travelled all over the world from India And yet foreign white sugar thoroughly established itself in India and no less than 5½ lakh tons of sugar were imported in 1931-32. The Tariff Board was convinced that the industry satisfied all the conditions of the Triple Formula and gave it protection at the rate of Rs. 7-4 per cwt. The rate was enhanced by a surcharge of 25 per cent in September, 1931, on account of financial stringency, bringing the import duty to a total of Rs. 9-1 per cwt.

The protection granted to the industry has revolutionized it and India is now not only fully capable of satisfying all her needs for sugar, but has also a surplus to export. The Government imposed an excise duty on the home product to stop overproduction and to weed out the inefficient concerns, but the protective duty was increased by that much at the same time. Thus the protective duty was raised to Rs. 7-12 per cwt. in 1934 with an excise duty of Re. 1-5 bringing the total import duty to Rs. 9-1. This remained till February, 1937, when the protective duty was reduced to Rs. 7-12 per cwt. with an additional revenue duty of Rs. 2 per cwt. The total import duty of Rs. 9-4 lasted till April, 1939, when the protective duty was further reduced to Rs. 6-12 which meant that total import duty came to Rs. 8-12 per cwt. This measure of protection has been renewed from April 1949 for one year when the case of the sugar industry would be reviewed again.

The Indian sugar industry suffers from three main defects : (*a*) a very low yield of cane per acre, (*b*) a low percentage of sugar extracted per ton and (*c*) the non-utilization of by-products.

The first two drawbacks can be cured by improving the quality of cane and the last by the utilization of molasses for the production of power alcohol and of begasse for making paper. Government is trying to make improvements in all directions.

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[1] Statistical Abstract of India. Figures from August 1947, are for the Indian Dominion only.

The industry has grown remarkably as a result of protection. In fact there are very few examples of the rapidity of such growth known to history. And this progress continued even in the depression years, when this industry was the only bright spot in Indian industry. It has been calculated that out of 131 lakhs of labourers directly employed in production of cane-sugar in 1935-36 at least 25 lakhs were new and there must have been another 25 lakhs who were directly employed as a result of protection. The progress the industry has made, is clear from the following table which also shows the steady fall in imports of sugar into India :

TABLE IV

Production and Import of Sugar.

(In thousands of tons)

Year	No. of factories producing sugar from cane	Total production of sugar	Total production of gur	Total imports of sugar
1931-32	32	4,87	27,58	5,56
1938-39	139	7,65	32,48	33

The production of sugar for war and post-war years is as follows :—

Production of Sugar (In thousands of tons).

Year	Quantity	Year	Quantity	Year	Quantity
1938 ..	994.	1941 ...	1210.	1944 ...	1091
1939 ..	695.	1942 ...	886.	1945 ...	967
1940 ...	1182.	1943 ...	1075	1946 ...	401

Nine months Aug. '47 to April '48...814.

It must be mentioned that this growth has come in spite of the structural and technical defects from which the industry has been suffering and which are :

(*a*) The non-utilization of by-products. Molasses and begasse are the two chief by-products. Molasses can be used for making power alcohol, cattle feeding, road making, fertilizing land, etc. Very little of molasses is being used in any useful way. It is not only "unable to fetch any price but even its disposal has become a source of great difficulty."[1] Out of a total production of 349,000 tons only 52·7 thousand tons were exported in 1935 36. This is a huge national waste. Because the thing which could be profitably utilized for making paper and paste-board is at present only being used as fuel in the sugar factories, the reason being the high cost of transport.

(*b*) It is seen that the industry is suffering from lack of capable technicians. It has been pointed out that the progress of the industry has been retarded by the presence of bogus experts, technologists and chemists.[2]

(*c*) This industry has been fairly heavily taxed not only by the Government of India with an excise duty but also with a sugarcane cess levied by provincial Governments, with import duties on machinery, with high railway freights and with income tax on profits and an additional Excess Profits Tax during war years.

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[1] Indian Fiscal Policy, Adarkar, page 228.

[2] On the authority of Padma Naba Iyer, President of Sugar Technologists' Association, quoted by Adarkar, p. 225.

In spite of its many handicaps the burden on the consumer has not been very heavy. It is seen that the prices of white sugar in most foreign countries were far higher than in India in 1939. At the same time the price of gur, mostly consumed by the poor in India, was much lower.

While previously the problem had been to check the over-production of sugar and restrictive measures (like excise duty) were being employed by the Government, as the war developed effort had to be made to manufacture more sugar. Civilian demand was greater than before due to more purchasing power and increasing population. The requirements of the Defence Forces had increased. Indian sugar was also demanded for supply to the United Nations.

The International Sugar Agreement of 1937, under which India had agreed not to export sugar by sea to any country except Burma, expired in 1942. India is now free to export sugar by sea. Sugar is in great demand in Ceylon, East Africa, Iraq, Iran and the Middle East. In the absence of Java sugar, India can secure a foothold there provided her domestic supply situation is satisfactory.

She exported

14,000	tons of sugar	in	1940-41
19,000	,,	,,	1941-42
31,000	,,	,,	1942-43

(iv) *Paper and Pulp Industry.* The war of 1914-18 gave a brief breathing space to this industry from foreign competition but after the war was over, there was severe competition from Europe. Therefore, the industry applied for protection in 1924 and the Tariff Board considered its case. It was found that the Sabai-grass product was too costly and had no eventual chance of facing foreign competition. Bamboo pulp was, however, plentiful and cheap, and the industry had a sure long range future, specially due to the increasing dearth of coniferous wood in Europe. Writing and printing paper was given protection at the rate of one anna per lb. Packing and wrapping paper was not given any protection because it could not be proved that India had any natural advantages for its production. Similarly newsprint was also neglected. The Tariff Board, however, recommended special help for experimental and exploratory work in certain mills but the Government refused financial assistance to the industry. Later (in 1935) a duty of Rs. 45 per ton was imposed on imported wood pulp to encourage the manufacture of bamboo pulp in India. In 1939, protection was continued for another 3 years but the duty on imported pulp was reduced to Rs 30 per ton. The continuance of protection was based on the grounds that protection has resulted in progress and that its withdrawal would be ruinous to the new mills.

Indian machinery is not up-to-date and the methods, too, are improvable. Cost prices have, however, gone down considerably, from Rs. 227 per ton in 1924-25 to Rs. 123 in 1936-37, but only a further fall in cost will enable the industry to stand up to foreign competition when normal times come.

TABLE V.

Production and Imports of Paper

(In thousand of cwts.)

Year	*PRODUCTION*				*IMPORTS*		
	No. of Mills	Printing and Writing	Badami	Packing	Printing and Writing	Packing	Pulp
1932-33	11	604	87	48	829	325	307
1938-39	16	884	124	58	1,103	387	277

The increased local production as well as imports of paper go to prove that literacy is rapidly increasing in India and still greater local manufactures will hardly meet the increasing consumption. The industry has a great future.

As shown by the figures in the above table, in spite of the wonderful progress of the domestic paper industry before the war, India still depends on imports from abroad substantially. During the war years imports from Norway and Sweden stopped altogether. The big gap left thereby could not be filled up by the imports from the U.S.A. and Canada. Shipping difficulties were severe. Hence the production and distribution of paper had to be controlled and a ' Paper Economy " campaign started. Ninety per cent. of the total production of paper was conserved for Governmant purposes, leaving only 10 per cent. for civilian use in 1942. In 1943, however, 30 per cent. of the current production of paper was set free for civilian purposes. The number of pages of all newspapers published in the country were limited and prices fixed. The production of paper increased in India during war years while its imports decreased. Due to more shipping accommodation being available the imports have increased now after that the war is over. The table below makes the position clear.

TABLE VI

Production and Imports (*In thousand of cwts.*)

Year	Production Printing and writing	Total (all kinds)	Imports Printing
1938	892	1,164	900
1941	1,040	1,864	—
1943	1,021	1,792	—
1945	1,021	1,964	708
[1]Aug '47 to July '48.	724	1,803	1026

(*v*) ***Match Industry.*** Up to 1922 India was wholly dependent on foreign matches when a heavy revenue duty of Rs. 1-8 per gross (amounting to more than 100 per cent. *ad valorem*) was levied on matches imported from abroad. Behind the shelter of this duty were born a few small concerns.

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[1] Figures for the Dominion of India only.

There was a struggle between Japan and Sweden for the Indian market. The Swedish Match Company got the better of it and India began to import more matches from them. At the same time the Swedish Match Company jumped over the Indian tariff wall of high import duty of Rs. 1/8 per gross imposed in 1922 and started its own factories in India between 1924 and 1926. In 1926 the matter was referred to the Tariff Board and they recommended the conversion of the revenue duty of Rs. 1/8 per gross to a protective one and the Government agreed. Unfortunately this protective duty helped the Swedish Trust in its iniquitous design of capturing the Indian market. This Swedish Trust controlled no less than 70 per cent of the total demand for matches in the world and like an octopus spread out its tentacles in the shape of match factories all over the world. It also controlled supply of German match industry through a subsidiary company. It used ruthless methods like the payment of rebates and discounts, refunds and prizes to its dealers to oust its Indian competitors. Thus many of the smaller concerns either disappeared into its maw or a controlling influence was acquired over them through the purchase of their capital in the open market. As a result its output in India increased vastly and that of Indian companies went down. In spite of this clear evidence the Tariff Board did not make any recommendations whatever to check the machinations of the Swedish company.

It is suggested that the monopolistic hold of the Swedish combine in India should be broken and a special *ad hoc* committee be appointed to suggest alteration in the Indian Industrial Law which would make unfair trade practices illegal and enforce Indianization of not only capital but also control. With a National Government at the helm of affairs such regulations should not be difficult to impose.

The present condition of the industry is illustrated by the following table :—

TABLE VII

Matches—Output and Imports

(In million gross)

Year		Indian output		Import
1932-33	...	19	...	6,14
1938-39	...	21	...	1,26

(*vi*) *Salt Industry.* The eastern provinces of India cannot manufacture any salt for themselves. The Government held that enough salt could not be produced in India to supply the need of the eastern districts. But they had to refer the case of salt to the Tariff Board in 1929 after a hot debate in the Legislative Assembly to report whether it was desirable to encourage the production of salt in India to provide salt for consumption in areas which were importing from abroad.

The Board reported in 1930 that the industry could be developed to meet India's needs. Aden, at that time, was a part of India. They also recommended the establishment of a Marketing Board in Calcutta for stabilizing prices. Accordingly, in 1931, after the Salt Survey Committee had made its recommendations, the Government imposed an additional duty of As. 1½ per maund on all salt imported (except that from Aden) in addition to the countervailing revenue duty of Rs. 1/4 per maund corresponding to that much excise duty, for one year. The duty resulted in the rapid growth of the salt industry in India. Later on, the duty was extended for another year. In 1932 there was a fierce rate-war between India and Aden. Italian East Africa also took part in it. Accordingly in 1935 a Salt Marketing Board was formed to get rid of internal competition and stabilize prices.

Since then the manufacture of salt in India has been at a steady rate and is almost stagnating. The industry cannot progress unless more salt is consumed for industrial purposes. Only 21 lakh tons are consumed by a population of 400 million. This compares very unfavourably with the consumption of 80 lakh tons by only 120 million Americans. We may conclude, then, that salt does not need protection. On the other hand, it is the chemical industry which uses salt as raw material which needs protection to be developed.

(*vii*) *Minor Industries.* A few minor industries that satisfied the conditions laid down by the Fiscal Commission have also been granted protection, *e.g.*, magnesium chloride, plywood, tea chests and gold thread industries. They have prospered as a consequence.

A duty of 15 annas per maund was levied on imports of broken rice into Madras from Malaya and Thailand. Madras was not only losing its self sufficiency in food but the agriculturist was also being hit hard.

In the days of acute distress indigenous wheat was also helped through a customs duty of Rs. 2 per cwt. on foreign imports.

11. Industries denied protection. We have briefly reviewed the industries which were given protection. We shall now proceed to survey the cases of those industries which were either not recommended protection by the Tariff Board or were refused it by the Government. The major industries which were denied protection were: (1) heavy chemicals; (2) oil; (3) coal: (4) cement; and (5) glass.

(1) *Heavy Chemical Industry.* This industry was granted protection for 18 months, from 1st October to 31st March, 1933, but was then deprived of it without any cogent grounds.

Heavy chemicals are of two kinds: (a) acids—sulphuric, hydrochloric and nitric—and the compounds based on them and

(b) alkalies like soda ash, caustic soda, sodium sulphide, zinc chloride, etc. Chemicals included in the second group were never manufactured in India, while a start with those in the first group was made during World War I The unit of production was, however, small and the cost of production high. Severe foreign competition and a rising exchange rate involved the industry in difficulties.

The case was referred to the Tariff Board who, after a thorough investigation, found that the products of the chemical industry were urgently needed for most industries in India, namely, the textile industry, the paper industry, the glass and porcelain industry, the soap industry, the artificial silk, paints and varnishes industries and others. Not only being a key industry for so many others, the chemical industry was indispensable for national defence purposes, sulphuric and nitric forming the base for the manufacture of high explosives. In addition, the manufacture of fertilizers like superphosphates and ammonia sulphate, so urgently needed for the cultivation of paddy, sugarcane, rubber and tea crops, was based on chemical products. The Tariff Board said : "It is anomalous that a country in which 90 per cent of the inhabitants are agriculturists should have to depend upon foreign imports for such an important adjunct to agriculture as artificial manure."

The protection recommended was (*a*) the conversion of the existing *ad valorem* revenue duty into specific protective duties; (*b*) a bounty of Rs 18 per ton on superphosphates used as fertilizers ; and (*c*) a reduction in railway freights. The Tariff Board suggested a reorganization of the industry on a larger scale with the help of a national combine. Another inquiry into its affairs was suggested after seven years.

The Government did not look at the problem sympathetically and argued that protection could not be given because of the lack of sulphur, and, after a good deal of pressure from the legislature and public, granted protection for only 18 months from 1st October, 1931 to 31st March, 1933, and later discontinued it on the "flimsy grounds that combination had been found impossible and that the industry had not yet fully developed."

During the last war the importance of the industry for national defence was fully realized. It has been recognized that it is a key industry for almost the entire field of productive activity—both industrial and agricultural—and that liberal help is very essential in its case. The Government of India have established (1948) a factory at Sindri in Bihar capable of producing 3,50,000 tons of ammonia sulphate with the object of making India self-sufficient in artificial fertilizers.

(2) *Oil Industry*. In 1928, a rate-war was in progress between

the Burma Shell Group and the Standard Oil Co. The Attock Oil Co , too, utilized the marketing agency of the Burma group to its benefit. Kerosene was being sold in India by the Standard Oil Co. below the world parity of prices.

It was discovered by the Tariff Board that the price-war had been started by the Burma Shell group after being assured by the Asiatic Petroleum Co. that they would be reimbursed by them for losses incurred The object was "not to realize the best price that can be secured but to regulate prices to suit its own purpose which was to compel the Standard Oil Co. to come to terms". Thus it was obvious "that protection was sought for financing the price-war itself and for shifting the burden of fighting the Standard Oil Co. on to the shoulders of the Indian consumer of kerosene".[1] The class-war was not considered to be detrimental to Indian consumers either in the present or the future. Hence the Tariff Board as well as the Government refused to protect the "indigenous" industry.

(3) *Coal Industry.* Many important industries like jute, cotton, iron and steel, paper and tea depend on coal. It is a basic industry. But railways in India are the largest consumers of coal. They, however, have their own collieries and enter the coal market only when the prices are very low. Thus they are in a position to exploit the coal market. In 1926, when the Tariff Board was asked to go into the case of the coal industry regarding protection the industry was in a difficult position. Out of a total production of 24 million tons of coal, railways consumed no less than 6½ million tons. The other large consumers were the iron and steel and textile industries Elsewhere the consumption was not significant. By 1920, however, a million and a quarter tons of coal were being exported. That year the Government of India restricted exports of coal. Besides, due to shortage of wagons and high freights in India, bounty-fed South African coal took the place of Indian coal not only in Colombo and other Indian markets, but also in Bombay and Karachi. The Indian coal industry thus was faced with disaster.

The Tariff Board decided that a protective duty was not called for as the future development of the industry did not rest on protection. They argued that the industry was in difficulties due to over-development. The minority of Tariff Board recommended a countervailing duty of Rs. 1/-/ on South African coal but the majority refused even that on the ground that such a duty would provoke retaliatory measures The Government agreed with the majority view and refused help.

From the point of view of conservation of the limited coal resources of India this rejection of protection might have been sound but the Government had no such consideration in mind and refused even a reduction or rebate on Railway freight on coal sent to Karachi and Bombay on the ground that railways were a commercial concern and could not afford to lose their income.

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[1] Adarkar, p. 360.

It may be suggested that the best method to conserve such a vital key material as coal would be to nationalize the industry. This would result in the employment of scientific methods of digging coal and would avoid the great wastage in collieries which is said to be as much as 50% in many cases.[1]

(4) *Cement Industry*. The industry was started as early as 1904 in Madras, but it made real progress only during the First World War when the war gave it natural protection. The after-war boom resulted in large profits and attracted new investors. Thus against an output of 945 tons in 1941, the ten factories at work produced no less than 5,50,000 tons of cement in 1920. In 1924, the industry was on the brink of collapse due to severe internal competition, which resulted in appalling losses for the shareholders, and British competition.

The British competition was particularly severe in the seaport towns of Calcutta, Bombay and Karachi. The Indian consumers had a bias in favour of the British product even though it was in no way superior to Indian cement. Besides, the railway freight from up-country factories to the seaport towns handicapped the Indian commodity against British cement. It was seen on investigation that the Indian towns consumed more than half the total quantity of cement consumed in India.

The Tariff Board considered the prospects of the industry and its claims for protection. They concluded that India possessed all the requisite natural advantages for the production of cement. It had ample limestone and clay of a suitable quality. It also produced gypsum, the only other raw material required. There was ample labour and much skill was not needed in the process. But the Board concluded protective duties would not help the Indian cement industry on account of "internecine conflict amongst themselves." They hesitatingly recommended bounties on cement despatched to seaports or towns near them and a specific duty on imported cement in place of an *ad valorem* one of an equivalent value, *i. e.*, Rs. 9 per ton. They, however, imposed a proviso that the Government of India should not grant any bounties till they were satisfied that such a grant would not lead to reduced prices of Indian cement.

The Government naturally refused these conditional proposals so hesitatingly made in view of the cut-throat competition in the country. One must admit, however, that in 1924 when the Tariff Board conducted its inquiry, "the cement industry had as good a claim as any other for protection ; it fulfilled all the essential conditions of protection." Soon after the Government's rejection of protection three new companies went into liquidation. If the industry had not combined itself first as an Indian Cement Manufacturers' Association (1926) and later as the Associated Cement Companies Ltd. (1935), it would have been ruined. Hence, one cannot help remarking that the Government's rejection of protection to this industry of national importance was "somewhat irresponsible".

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[1] Report of the Coal Mining Committee, 1937, quoted by Adarkar, Vol I,

(5) *Glass Industry*. The case of this industry was referred to the Tariff Board in 1932. The Board concluded that all raw materials except soda ash were available in India. For instance, silica sand, borax, limestone and cheap coal were found in abundant quantities. Soda ash was not produced in India in any quantity and this was the only drawback so far as raw materials were concerned. This was not from the lack of any basic materials from which soda ash can be produced, but because the industry did not exist then. Today the Imperial Chemical Industries, the Tata Chemicals and the Dhrangadhara Chemical are all producing soda ash.

The Tariff Board, however, recommended protection for the industry because they considered that there were reasonable prospects of the almost immediate manufacture of soda ash in India. Consequently the rejection of claim for protection by the Government of India on the ground that soda ash had to be imported from abroad was, to say the least, unfair and myopic. The industry had ample raw materials, cheap labour and a large internal market. It could also stand on its legs, and satisfy the demands of the entire market, if the Government had been sympathetic. In the circumstances one cannot help suspecting that the Government actively wanted to assist the British chemical industry by importing soda ash on a preferential basis.

12. Burden of protection. We have already discussed the dangers and drawbacks of protection in theory. One of the strongest grounds on which protection has been usually criticized is that it imposes an unfair and unnecessary burden on the poorer classes of people in the country. This in fact is the main point of the campaign against protection. Now there is not the least bit of doubt that protection entails a burden on consumers in a country But does the burden lie on the poor classes ? Is the loss greater than the gain and therefore the burden unnecessary ? These questions have to be answered before the criticism can be justified.

It has been often claimed that protection is very costly and the agriculturist is groaning with the burden. On analysis, however, it is found that most of the articles protected do not penetrate into the villages at all and are consumed by the members of the middle and upper classes in urban areas. Articles such as silk, fine cloth, oilman's stores, liquors, glassware, crockery, paints, watches, cutlery, etc., are not necessaries and do not find a place in village homes. Nor does the villager use much of paper, white sugar and steel. The duties on cotton piece-goods were imposed as safeguards against dumping and depreciation of foreign currencies like the yen and this only removed the unfair advantage the consumer was getting at the expense of the manufacturer. Hence it is not the non-vocal masses who pay the price of protection but the educated middle classes who have been advocating it all along. Besides, the system of taxation in India has been continuously becoming more progressive in recent years and no more can it be said that taxation is regressive. On the contrary, what with income and super taxes, sales taxes and duties on luxury goods, the rich man is every day paying more and more into the exchequer. With the advent of national Government in India, schemes for the amelioration of the poor never dreamt of before have been taken in hand and their cost will fall on the upper classes. Even taxes on high agricultural incomes and death duties are not far off.

Next there are clear proofs that the policy of protection, though halting and meagre in nature, has brought more gain in its train than loss. There has been a vast increase in employment. Many resources untapped hitherto have been utilized. The sugar industry supplies an un-equivocal proof of the benefits of protection. The use of bamboo pulp for paper would not have been possible without protection. In fact, it cannot be gainsaid that there has been an increase in the total consumption in the country as well as in its national dividend, small though it may be.

13. A criticism of the policy of discriminate protection. There is no gainsaying the fact that this policy has enabled India to develop some industries and save others from destruction. Iron and steel, cotton, sugar and paper industries are deeply indebted to this policy.

But this discriminating policy has met with strong criticism on the part of some Indian economists[1] Some would say it is all discrimination and no protection. According to Mr. B. P. Adarkar, "The discriminating protection in India......has vouchsafed nothing better than a perfunctory assistance, indifferently and grudgingly rendered to industries whose subsequent development has been left to take its own course." The policy of discriminate protection has not fulfilled the expectations of Indians nor does it inspire confidence in them. The results it has produced in India during the last 20 years can stand no comparison with what has been achieved in Russia and Japan in a short period. We are still predominantly an agricultural country far away from our ideal of industrialized India.

The fact is that the conditions laid down for the granting of protection are too severe. The first two conditions seem to be incompatible. If an industry enjoys all natural advantages, why should it not be able to grow without protection? It will not need protection. The third condition is merely a matter of opinion and imports too much of a personal element. Further why should an industry be denied protection if it has no home market but a large export market. Also, an industry can very well thrive even if it has to import some raw materials. But such an industry could not get protection under this scheme. Not many industries in foreign countries can satisfy such conditions and they would never have developed if they had to submit to such tests. Moreover, this policy can take into consideration only those industries which already exist. It cannot build new industries or bring them into existence.

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[1] *Vide* Vakil and Munshi—Industrial Policy with special reference to Tariffs: B P Adarkar in Industrial Problems of Modern India, edited by P C. Jain; D K. Malhotra—Review of Indian Fiscal Policy; P. B Adarkar—Indian Fiscal Policy.

The constitution, composition, functions and the procedure of the Tariff Board are not such as to render effective and timely aid to the industries. The members are selected by the Executive which also fixes the terms of reference. They may like to be appointed again or seek some other official favour. People who bask in official sunshine cannot be expected to take an independent attitude. Even so their hands are tied by the terms of reference. For every industry, a new Tariff Board is appointed. They thus lack width and continuity of experience. Their outlook is narrow and whatever experience and knowledge they gain in the course of an enquiry is lost, for, next time a new board is constituted. They are not asked to look beyond a particular industry.

It is complained that the Board usually adopts too judicial an attitude and in their desire to keep the scales even, they fail to show full sympathetic understanding of the needs of Indian industry. Foreign interests must have influenced their decision when Imperial Preference was grafted on protection in 1927 in the case of steel industry and in 1930 in the case of cotton textile industry. Besides, the procedure is too dilatory. The Tariff Board moves in a leisurely fashion from place to place and the report is prepared at the convenience of the members and then the Government takes its own time. Sometimes more than a year elapses before the report is published. The Government devotes some time to the formulation of its own proposals and their passage in the Assembly also requires some time. Such a slow-moving machinery cannot be expected to meet the situation on the commercial front which undergoes rapid changes. The industry may be dying but no timely relief can be given. It is a case of Nero fiddling when Rome was burning. In several cases the recommendations of the Tariff Board—an expert body—were turned down by Government. Periodically recurring inquiries import an element of uncertainty. It does not speak well of this policy when we remember that cement, glass, coal and oils, woollen and printers' ink industries were denied protection. There are several industries which deserve encouragement, but have not yet been considered for protection at all, *e.g.* aircraft, automobile, ship-building, tanning, electrical goods, pharmaceuticals, handloom weaving, soap, etc.

In other countries like the U.S.A. and Australia, there are permanent Tariff Commissions whose duty it is to keep a watch over the industrial field and take action if anything goes wrong. The Import Advisory Committee in Great Britain can also act expeditiously. What is wanted in India is a large body of experts enjoying independent and permanent tenure like the High Court Judges who should have full discretion in the performance of their duties. They should be in a position to render effective aid to needy industries expeditiously.

In the end no fairer summing up and no better suggestions can be given than in the words of Mr. B. P. Adarkar:—

"First, the formula of Discriminating Protection needs overhauling; it should be replaced by a simpler, more sensible and more straightforward formula. The rigid conditions of that formula must be revised somewhat along the lines of the British Safeguarding of Industries Act. The condition regarding raw materials, in particular, must be considerably relaxed. The best method of doing this will be to judge the natural advantages of any particular industry from the final figures for the costs of production, present and future, as computed by the Tariff Board, and not piecemeal from the enumerated conditions of raw materials, labour supply, etc. The third condition of the formula must be dropped as being of the nature of a forecast rather than a condition precedent. Secondly, the machinery and procedure of the Tariff Board must be drastically revised, and the present system of hurdles and bottlenecks must be abolished facilitating a straight reference to the Board, which should have powers to initiate enquiries itself. The personnel of the Board also must be made more responsible to public opinion and the present predominance of the official element reduced. Thirdly, there must be a clear-cut division between (*a*) Developmental Protection; (*b*) Safeguarding; and (*c*) the Revenue Tariff; the purpose and function of each being clearly defined and understood by all concerned, including the Government. Fourthly, the revenue tariff, in so far as it affects the development of industries, must be subject to the review of the Tariff Board. Fifthly, from time to time, the Government must encourage the development of essential new industries by means of an "experimental tariff". If in spite of the tariff, the requisite industries do not come into existence, it should be open to the Government to withdraw it."

14. Imperial Preference. Imperial Preference means "the expansion of Empire trade brought about as far as possible by the lowering of tariff barriers as between the several members of the Empire."[1] The idea had been in the field for a long time. It was in operation in the old form as long ago as the 17th and 18th centuries in England. Preference for the exports of the mother country was compulsory then. The new system, however, leaves the various units of the Empire at complete liberty to regulate their tariff and then to allow some concession to the Empire goods voluntarily. Thus, it was claimed by its protagonists, preference would involve no relaxation of protection nor would it be of a type to invite reprisals.

It was in 1903 that India's attitude towards Imperial Preference had to be officially defined for the first time. Taking into account the character and direction of India's trade, the Government concluded that the adoption of a preferential or protective tariff would be prejudicial to her interests. India was a debtor country and the major portion of her net annual obligations to England were secured by an excess of exports over imports in her trade with non-Empire countries. Thus there was a real danger of reprisals by foreign Governments of which the results might have been ruinous. Lord Curzon stated that India had something, but not perhaps, very much, to offer to the empire; that she had very little to gain in return and that she had a great deal to lose. On later occasions, too, the Government of India consistently opposed a general system of Imperial Preferences.

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[1] Baldwin—Ottawa Conference.

The Indian Fiscal Commission considered the question in 1921, and remarked that the advantage of a preferential policy was likely to be greater for imports of manufactured goods than for exports of raw materials. They held that it was not proper "that India should be called upon to bear an additional burden on top of discriminating protection for the furtherance of interests which are not primarily Indian."[1] The war of 1914-18 had, however, given so much strength to the idea of pooling the resources of the empire and making it one strong economic unit that the Fiscal Commission, in spite of their conviction that Imperial Preference would be harmful to India due to the resultant increased burdens on the consumers, supported it as a practical policy and favoured preference on a few articles as a free-gift to England after examination by the Tariff Board and with the approval of the Legislature. They remarked, "We would not have India in a position of moral isolation within the Empire; a free gift from India, however small, would be welcome as a gesture of friendship[2] and as a proof that she realized her position as a member of the Empire."

In spite of the fact that the representatives of the Government of India had given their opinion against any general scheme of Preference for the empire as a whole, the scheme was put in operation and some protection was given to imports of British steel in 1927, and textiles in 1930. Thus India had to follow in the footsteps of the Dominions which had given extensive preference to the mother country since 1920.

15. The Ottawa Agreement, 1932. In 1932, India's fiscal policy changed as the result of a change in the British fiscal policy. The United Kingdom discarded free trade in favour of protection and Imperial Preferences at Ottawa. If India did not follow Britain she was in for a loss. "The Ottawa Agreement between the United Kingdom and India served primarily as a measure of insurance against potential losses in the Empire markets."[3] India would have fared badly if she had not accepted the Pact after the United Kingdom had adopted protection with a comprehensive system of Empire Preferences. India's exports would have had to

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1. Fiscal Commission Report, p. 119.
2. *Ibid.*
3. B. K. Madan—India and Imperial Preference, p. 119.

face severe competition in the British market and British tariffs would have gone against India in case she had rejected the Ottawa Agreement.

The Agreement was confirmed by the Indian Legislative Assembly in 1932 for three years. As a result India gave 7½ per cent preference on certain classes of motor vehicles and 10 per cent on some other goods. Thus while the duty on some non-Empire goods like spirits, perfumes, electric bulbs, etc., was 50 per cent, British goods of the same type paid 40 per cent. British motor-cars paid 30 per cent against 37½ per cent. on those of foreign make and while some other foreign goods paid 30 per cent. British goods escaped with only 20 per cent. In the reverse direction Britain granted India a 10 per cent. preference on several commodities and allowed some others to enter free of duty.[1]

This agreement was terminated by the Assembly in 1936, but was renewed the same year. Then it continued till 1939, when the Indo-British Trade Agreement replaced it.

16. Effects of the Ottawa Agreement on India. A controversy has long raged over the issue whether the Ottawa Pact has resulted in gain or loss for India. The Government position has been that the Pact has been of inestimable benefit to India while the nationalist view has given an equally emphatic verdict against it.

That Indian exports to England and British exports to India should increase is but a natural consequence of the preference policy. This is, however, only a superficial view. It is not an easy job to calculate the precise effects of the Pact, for, we are in no position to say what the situation would have been if there had been no agreement at all. Besides, the years during which this agreement ran were not normal years. The whole economic system of the world was topsy-turvy. There was a great depression. There was a rise of intense economic nationalism in every country in Europe. Currency blocs had been created all over the world. In such a state of affairs when the economic equilibrium of the whole world had been disrupted, to study the effect of minor things like a Pact between two countries is almost impossible. Dr. Madan has adduced figures to prove that the agreement had "a high insurance value". The official view is that India gained more than what she gave. This ain is in most cases deceptive. The chief commodities that gained rom the preference in the British market were rice, tea, tobacco nd jute manufactures. The remaining preferred articles did not how much gain. On the other hand, the total number of British ommodities that were preferred in India was 162 and they all ained mostly at the expense of Indian industries. Indian articles n the United Kingdom did not compete with any British products whatsoever. On the contrary, they helped British industry.

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[1] For a full discussion of the grouping of commodities and the effects of eference on their trade, see Madan, op. cit., p. 51 ff.

It may be further mentioned that it was not Indian rice that gained from preference in England but Burma rice and the benefit to tea and jute manufactures did not go to the Indians as such but to the British growers of tea in Assam and British jute magnates in Calcutta. We are constrained to say that the character of the trade was so canalized by Ottawa preferences that India lost in both directions. The agreement was foisted on an unwilling legislature and an unwilling country by the Viceroy. Our trade was directed into the empire countries and as a result we started losing in other important markets such as the U.S.A., Japan and the Continental countries of Europe. The Pact could have been called useful if the Indian trade with non-Empire countries had not contracted.

17. **Industrial Co-operation.** This co-operation (which is the basis of Empire Free Trade or Preference Scheme) between India and the United Kingdom could only be on the basis of the latter's recognition of the fact that India was going to industrialize herself and that England should content herself with supplying India's needs in the way of capital goods, machine tools and fancy goods of a quality India is yet incapable of making herself. When India can manufacture these the United Kingdom should adapt herself to supply the changing needs of India. The Indian market is a vast one. With a rise in the standard of living of Indian masses, their demand for superior goods is bound to increase, thus providing a changing but ever-increasing opportunity to the United Kingdom for marketing her goods in India.

18. **The Mody-Lees Pact (or the Bombay-Lancashire Agreement), 1933.** A British Textile Mission headed by Sir William Clare Lees arrived in Bombay in September 1933. It negotiated an agreement with Mr. (now Sir) H. P. Mody, President of the Bombay Mill-owners' Association. This Agreement gave considerable differential advantages (preferences within protection) to the United Kingdom and "arranged for the extension to Indian goods of many advantages secured for British goods in Empire and other overseas markets as well as for India's participation in any quota allocated to the United Kingdom[1]. It also promised effective action to promote the use of Indian cotton in Lancashire mills. The agreement was later embodied in the Supplementary Indo-British Trade Agreement in 1935.

19. **Supplementary Indo-British Trade Agreement, 1935.** In January 1935, a supplementary agreement was signed between India and the United Kingdom amplifying the 1932 Agreement and granting further privileges to the British industry in India. Its important provisions were as follows :—

(a) That the protection given to any industry should not be greater than was just enough to make the selling prices of goods made in India equal to the prices of imported goods and wherever possible lower duties should be levied on British goods.

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[1] Madan, op. cit. p. 162.

(b) that when substantive protection was to be given to any Indian industry, full opportunity should be given to concerned British industries to argue their case before the Tariff Board ;

(c) that even during the course of protection a request by the British Government should move the Government of India to review the situation and revise the protective rates, if so needed ; and

(d) that the British Government undertook to popularize the use of Indian cotton and to continue to import Indian pig iron free of duty but only so long as the current preferences on British steel in India continued at the same rate.

The Agreement was thrown out by the Indian Legislative Assembly but was certified by the Viceroy and continued in operation till 1939, when some redundant clauses were allowed to lapse and a new Agreement signed.

20. The Indo-British Trade Agreement, 1939. Negotiations between the two parties went on for a long time—about three years—before a Bill was presented before the Assembly to replace the earlier pact. It was rejected *in toto* by the House, but was again certified by the Governor-General, thus proving that the fiscal freedom granted to India was in name only. Its main provisions were as follows :—

(1) India granted 7½ to 10 per cent. preferences on 20 articles imported from the United Kingdom, *e.g.*, 10 per cent on chemicals, paints, sewing machines, etc. and 7½ per cent. on motor-cars and cycles.

(2) The exports of Indian cotton to the United Kingdom were linked by a sliding scale with the imports of cotton piece-goods from the United Kingdom.[1]

(3) Most-favoured-nation treatment based on preferences was mutually agreed between India and the other Empire countries.

(4) The United Kingdom on her side gave preferences ranging between 10 and 20 per cent. on some scheduled Indian goods and allowed free entry to a few others when similar goods of a non-Empire origin were being taxed. Indian pig iron was given a free entry till 1941, when duties might be imposed on it if India imposed duties on British steel.

The Agreement Reviewed. The mere fact of the certification of the Agreement by the Governor-General aroused keen resentment. It also met with the disapproval of Indian commercial interests. The recommendations of the non-official Indian advisers for protection of Indian shipping and banking concerns against British discrimination were turned down. It is believed that while the benefits accruing to the British industry as a result of the Agreement were substantial, those which India gained "had mainly a negative insurance value."[1]

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[1] For details of the scale see B. P. Adarkar. op. cit., p. 561.

The sliding scale arrangement linking up exports of cotton piece-goods from the United Kingdom to India and exports of cotton from India was nothing less than "heads I win, tails you lose" kind of bargain in favour of the United Kingdom.[2] The Indian goods allowed a free entry in England, *e.g.*, jute, myrobalans, lac and mica, were a monopoly of India and were raw materials needed by England. Moreover, a large number of Indian commodities which received preference in the United Kingdom, met with severe competition on equal terms from within the Empire while the United Kingdom enjoyed exclusive preference in India.[3]

The Agreement was, however, a distinct improvement on the Ottawa Pact of 1932. Altogether, the scope and degree of preferences exchanged appeared to make a fair deal The case of cotton was different. The dice were heavily loaded in favour of the U. K. in the prescribed sliding scale. It would be well to remember that India could not afford to be outof the preference circle as otherwise her exports would have met with heavy duties in the Empire markets, the only sure thing in an unsure world. Considering the fact, however, that the United Kingdom gained it would have been better if she had removed India's genuine complaints and secured her goodwill.

21. **Pre-war Bilateralism in India's Fiscal Policy.** (*i*) *The Indo-Japanese Pact of 1934.* In addition to India's bilateral relations with the United Kingdom as discussed above, she concluded a trade agreement with Japan in 1934. Japan had greatly depreciated her currency. Her exports of cloth put the Indian industry in a very precarious position. Even a duty of 50 per cent. *ad valorem* on imports of non British cloth imposed in 1932 did not meet the situation. The Government of India gave the necessary six months' notice to Japan to end the most favoured-nation relationship entered into with her in 1904. The denunciation of the Indo-Japanese Convention moved Japan to boycott Indian cotton and enabled the Government of India to raise the duty on foreign piece-goods to 75 per cent *ad valorem.*

A Japanese delegation came to India in October, 1933, and a new agreement was signed between the two countries in 1934. It consisted of a Convention and a Protocol. The Convention provided for the extension of most-favoured-nation treatment to each other while both parties reserved the right of levying special customs duties when required to correct the effects of changes in the value of the yen or the rupee after January 1, 1934. The Protocol linked the imports of Japanese piece-goods on the basis of a sliding quota with the exports of raw cotton from India.

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1. Jathar and Beri--Indian Economics, Vol. II, p. 630.
2. B P. Adarkar, op. cit. p. 561.
3. Madan, op. cit. p. 242

The duty on Japanese piece-goods was lowered from 75 per cent to 50 per cent *ad valorem.*

The treaty removed all bitterness of feeling between the two countries and benefited both the Indian grower of cotton as well as the Japanese manufacturer. As time passed the Indian mill-owners, however, complained of evasion of the spirit of the treaty by Japan, for she started exporting large quantities of cuttings of cloth pieces known as *fents* which were not only outside the quota, but also paid a lower customs duty. Japan further enlarged her exports to India by sending ready-made clothes and artificial silk goods which too were not included in the quota. Further, cloth of greater width than a yard was exported to India. In fact, all kinds of ingenious plans were adopted to sell in the Indian markets more than the prescribed quota of piece-goods. In addition large quantities of all kinds of miscellaneous goods like crockery, cycles, toys and umbrellas were dumped into India thus doing great damage to immature Indian industries.

(*ii*) *The New Indo-Japanese Agreement, 1937.* All the above-mentioned points of criticism were taken into consideration when the old treaty was over and a new one was to be drawn up in 1936. The need for inclusion of *fents*, artificial silk goods and made-up cotton clothes in the quota was urgently stressed by the non-official advisers. But although the negotiations were protracted, the new protocol retained the features of the old one.

The basic quota was reduced but the reduction was due to the separation of Burma from India, and was not nearly enough, as Burma's share had been fixed much higher at the time of the old Agreement. The Government either could not or did not use their advantageous position in restricting Japan's demands due to their anxiety for the Indian cotton grower. They also failed in including the miscellaneous exports of Japan in the quota, nor were the various loopholes for additional exports of cloth closed except that a percentage of piece-goods was fixed for the quantity of *fents*.

Under the new Agreement, Japan went on exporting all kinds of textile and non-textile goods in increasing quantities while her offtake of Indian cotton was more or less the minimum required to satisfy the quota prescribed. The Agreement was to be reviewed and revived in 1940, but the negotiations broke down and before anything could be finally settled the war intervened.

(*iii*) *The Indo-Burma Trade Agreement, 1941.* Since the separation of Burma from India in 1937, till 1941 when an agreement was finally signed, the trade between the two countries was governed by a Regulation which maintained the *status quo.* The new Agreement gave a 10 per cent. margin of preference against Empire goods and 15 per cent against non-Empire goods. The Burmese farmer and miner gained considerably as rice, gums, timber and ores were admitted into India duty-free. The Indian manufacturer of sugar and cotton also benefited from privileges obtained in the Burmese market. It would be well to remember, however, that

Indian imports from Burma far exceeded in value her total exports to that country; hence Burma derived a greater total advantage than India. But India urgently needs Burmese rice and raw produce.

42. **Post-war Developments.**—(*A*) *Tariff Board. Developments and operations after the Partition.* For the first time in its history the Tariff Board in India was entrusted in November 1947 with certain duties and functions in addition to its old normal functions of investigating into claims for protection and of tariff equalisation. The Tariff Board now occupies a position similar to Tariff Boards in the U.S.A. and Australia. The additional functions of the Tariff Board as reconstituted in November 1947 with a President and two members, are as follows:—

(1) To report to the Government, as and when required, factors that lead to increase in the cost of production of Indian manufactured goods as against imported articles.

(2) To advise the Government, as and when required, on measures whereby internal production may be secured on the most economical cost basis.

(3) To enquire, as and when required by the Government, into the cost of production of a commodity produced in the country and to determine its wholesale, retail or other prices, and to report on the same.

(4) To recommend to the Government, as and when required, measures necessary for the protection of India's industries from dumping from abroad.

(5) To undertake studies, as and when necessary, on the effects of *ad-valorem* and specific duties and tariff valuations on various articles and the effects on tariff concessions granted to other countries.

(6) To report to the Government, as and when necessary, on combinations, trusts, monopolies and other restraints on trade, which may tend to effect the industries enjoying protection by restricting production, or maintaining or raising prices, and to suggest ways and means of preventing such practices.

(7) To maintain a continuous watch over the progress of protected industries by conducting enquiries, as and when necessary, on the effects of the protective duties or other means of assistance granted, and advise the Government regarding the necessity or otherwise of modifying the protection or assistance granted; to keep a careful watch to ensure that conditions attached to the grant of protection were fully implemented and that the protected industries were being run efficiently.

The present Board has been asked to conduct enquiries into the following industries:

1. *Tariff Enquiries :*
   - (a) Plastic goods including moulding powder used in the manufacture thereof ;
   - (b) glass and glassware, including bangles ,
   - (c) slate and slate pencils ;
   - (d) hydraulic brake fluid ;
   - (e) magnesium chloride ;
   - (f) sericulture ;
   - (g) artificial silk and cotton, and artificial silk and mixed fabrics ;
   - (h) gold and silver thread and wire ;
   - (i) sugar ;
2. *Price enquiries :*
   - (j) cotton cloth and yarn ;
   - (k) steel ;
   - (l) paper ;
   - (m) sugar ;
   - (n) superphosphate.

By the end of 1948 the Board had completed seven enquiries and has submitted reports to Government. Others are in the course of being submitted.

The new functions devolving on the Tariff Board make it clear that the Government is keen that the interests of consumers should be safeguarded. The Board has undertaken a review of bicycles (re. stock position), caustic soda and bleaching powder (re. subsidy) and calcium chloride (re. protection). Reviews of other industries are to be undertaken. As a result of the Board's recommendation, sugar industry has been given protection for one year more, and its position could be reviewed again in 1950.

In India new tariff problems are taking their rise every day. New methods of trade control have to be devised. The Board will serve as an expert agency to advise the Government in foreign trade and will establish "its integral and almost indispensable role as investigator and adviser on the whole gamut of tariff problems".

(*B*) *Fiscal Policy.* We became a free nation only a couple of years back. Numerous problems face us. Obviously we can no longer be content with exporting primary commodities. That way we can neither raise the standard of living of the masses nor achieve the ideal of full employment. It is, therefore, imperative that we should increase our exports.

As regards imports India is in a cleft stick. Her population is increasing rapidly, while the production of foodstuffs has actually declined. Hence she has had to import huge quantities of foodstuffs. We must curtail these imports. The Government have realised the urgency of the matter and have confidently stated that they have schemes in hand which will enable India to be free of these imports by 1951 at the latest. But to do so we need tractors, chemical manures and electric machinery from abroad.

Due to the partition, India has lost her best areas for the production of long-staple cotton and jute. She is, therefore, compelled to import large quantities of raw materials, too, from abroad. Strenuous efforts are being made to produce them in India, but food grains are the first priority and it will take a pretty long time before we can produce enough raw materials like cotton and jute to meet our needs.

India is not yet in a position to construct machinery and machine-tools needed for industrializing herself. She has to depend for these on foreign countries. Hard currency countries are in a position to satisfy India's needs in this direction best but India cannot find enough dollars to pay for them through her ordinary exports to them She has had to borrow from the I.M.F. temporarily but she cannot do so for ever. She cannot have her sterling assets converted into dollars. Therefore India has to reorientate her fiscal policy to meet her urgent needs for food grains and agricultural and industrial machinery. World War II resulted in a plethora of money in India amounting to inflation. To absorb surplus money and to check inflationary conditions consumer goods of all kinds, for which the people of India had been starving during war years, have had to be imported.

Thus India has to find sufficient amount of payments for her food grains, plant and equipment, industrial raw materials and consumer goods. To do so we should increase our exports both of raw materials and primary commodities we produce, as well as of those of our manufactured goods which are acceptable abroad.

For this purpose we should carefully nurse our new markets for piece-goods in the Middle East and elsewhere. We are having heavy deficits in our trade with the U.S A. and other hard currency countries. We should take special steps to encourage exports to these countries in all possible ways. Brassware, cotton and silk embroidery, and gold and silver embroidered goods, ivory carvings, coir goods can be profitably exported to dollar areas. It does not matter even if we have to curtail some exports to soft currency areas in the process. The Government of India have been changing their fiscal policy according to the needs of the moment.

With independence secured, India is free to adopt whatever methods may be essential for its industrialization. She has, no doubt, signed the Charter of the I.T.O. at Havana along with 52 other nations. She has agreed to a multilateral system of trade. Being " economically backward " she is allowed certain privileges. Thus she has been able to enter into bilateral treaties for exchange of goods with a very large number of countries including Japan, Burma, Australia, Afghanistan, Iran, Egypt, Czechoslovakia, Yogo-lavia, France, bi zonal part of Germany, Sweden and the U.S.A. She is also permitted to encourage indigenous industries by " reasonable protection. " Her new Tariff Board resembles the old one in name only. It has wider functions and for the first time, 26 years after it was created, it occupies the position it should have at its inception. There are indications that import and export controls will be maintained in India for an indefinite period to secure "difficult" exchange for purchase of capital equipment and technical personnel. Things are in the course of settling down now. The Government of India have, therefore, appointed a Fiscal Commission—an independent non-official body—under the presidentship of Mr. Krishnamachari to review the present policy of discriminating protection and lay down principles of protection in the light of the existing situation with particular reference to the country's international obligations. The Commission is thus expected to cover the whole field of India's fiscal policy and to reorientate it in time with world changes and India's present requirements.

It may be pointed out that even though inland trade is more important to India than to many other countries, yet she cannot isolate herself from the rest of the world. With growing industrialization India will depend more than ever before on foreign countries. She must import capital goods, technical "know-how", industrial raw materials and even capital from abroad. As time passes primary commodities will steadily lose importance in India's export sheet, and manufactured and semi-manufactured goods will replace them For the latter India will have to find new customers in the Middle East and Far East countries which are industrially undeveloped. Thus India's trade will assume more of a multilateral character than otherwise. To some countries she will sell her manufactures, from others she will purchase industrial raw materials and from still others her capital equipment. India will thus work towards a liberalization of trade rather than a perpetuation of barriers. Even during the period when India's industries are being built up and protection is needed to build them, India's links with the rest of the world are very wide as is evident from the large number of commercial treaties she has entered into. India is not particular where she buys her goods or where she sells them provided she secures what she wants and sells what she has. In the words of Dr. Matthai, in response to any reasonable appeal for economic co-operation, "a free India cannot return a blank negative without damaging her position in the eyes of the rest of the world and without ultimately stultifying herself."

Further Readings Suggested

1. Indian Economy Today and Tomorrow—An American Study.
2. India's Foreign Trade—Ganguli.
3. Trade—N.P C.
4. Trade, Tariffs and Transport—K. T. Shah.
5. India Before and Since the Crisis—Brij Narain, Vol. I and II.

6. Industrial Problems of India—P. C. Jain.
7. Indian Fiscal Policy—B. P. Adarkar.
8. Fiscal Policy—D.K. Malhotra.
9. Indian Foreign Trade—Indian Trade Commissions.
10. India and Imperial Preference—B. K. Madan.
11. Trade in South-East Asian Countries—Ghate.
12. The Commerce
    The Eastern Economist. Weekly journals.
    Indian Finance
13. The Review of the Trade of India, 1943-44.
14. Report on Banking and Currency, 1947-48.
15. Monthly Abstract of Statistics—Government of India.
16. Indian Year Book—1948.
17. Hindustan Year Book—1949.

CHAPTER XXVI

BANKING AND CREDIT

1. Introduction. Indian banking is as old as her trade and commerce. The laws of Manu show that banking was understood and practised long before Christian era. Chanakya's *Arthashastra* (the Science of Money) mentions the presence of bankers in the times of Chandragupta Maurya.

Banking and credit received severe blows from the Muslim invasion and occupation of India. Many old banking houses survived, however, and performed important financial services for Muslim princes and courtiers. The names of Jagat Seth and Oma Seth are well known in the history of the Nawabs of Bengal. Even the East India Company made use of them to borrow money and to remit it to distant places in India.

Even today when the Western banking system has so thoroughly established itself in the country, no picture of Indian banking would be complete unless the old indigenous banker and money-lender are prominently painted in.

A study of the problems of Indian banking is highly important. Unfortunately, complete banking statistics are not available. The shroffs in the city and money-lenders in the village do not publish any accounts. Many of the non scheduled joint stock banks, too, which exist in large numbers and are incorporated under the Indian Companies Act of 1936, neither publish any returns nor supply them to the Reserve Bank of India. This paucity of data stands in the way of a thorough comprehension of the problem and the eradication of faults from the existing system on a scientific basis.

2. The Constituents of the Indian Banking System. The Indian money market and banking system are composed of the following members :—

(*a*) Indigenous bankers.
(*b*) Co-operative banks.
(*c*) Land mortgage banks.
(*d*) Post Office savings banks.
(*e*) Joint stock banks including the Imperial Bank.
(*f*) Foreign exchange banks.
(*g*) Insurance companies.
(*h*) The Reserve Bank of India.
(*i*) Stock and bullion exchanges.

Sometimes post-office savings banks and insurance companies are not included in the frame-work of the Indian money market as they are supposed to perform special forms of banking business. But any institution that collects money from some and lends it to others has a right to a place in it. The Indian money market, unlike the British money markets, is very loosely held together. If a village money lender whose only business is to lend his family funds is a part of the banking machinery, so is an insurance company that collects millions from individuals and invests them in Government and other approved securities.

3. **The Importance of Indigenous Bankers.** The survivors of the old indigenous banking system in India are found carrying on their age-old operations in different parts of the country under different names. In Madras they are called Chettys; in the Punjab and the U. P., Sahukar, Mahajan and Khatri; in Bombay Shroff, Marwari and Multani, and in Bengal Seth and Baniya.

India has more than six lakhs and a half of inhabited places, out of which 4,230 have a population of 5,000 and over. Of these only 140 had any banking facilities in 1916, 339 in 1926, 511 in 1936 and 736 in 1939. Most new branches are opened in the up-country distributing centres or the great ports of India which already enjoy banking facilities. Out of the 743 new branches opened during the war years, only 258 are at places which had no bank in 1939.

No less than 87·2 per cent of the population of India lives in rural areas. Two out of every three persons are directly dependent on agriculture which is thus still the pre-eminent occupation of the people, in spite of the recent advance in urbanization and industry. The supply of credit in the villages, therefore, far overshadows all other kinds of credit. Most of the towns and all the six lakh and odd villages are without any banking facilities and have to depend either upon the co-operative society or the money-lender for the supply of their financial needs. In 1945, the number of agricultural credit societies was only 115,780 with a membership of 5 million—a bare 7 per cent of the total agricultural population.[1] "Despite the keen competition of co-operative societies and despite the heavy losses and difficulties of the last depression, the money-lender and the indigenous banker[2] still continue to be the backbone of India's rural finance."[3] The number of money-lenders and indigenous bankers in India in 1931 came to no less than 3,29,000. The total amount of rural debt has been estimated by experts to be 1,200 crores of rupees. The working capital of the 115,780 odd agricultural credit societies was only Rs. 30,53 lakhs in 1945[4] The co-operative credit movement has undoubtedly great potentialities in the future; but so far it has touched only the fringe of the rural credit problem and the money-lender is still paramount in the village.

4. **Business of the Village Money-lender.** In the village he finances the agriculturist for productive and unproductive purposes, buys his crop and moves it to the Mandi. He supplies the needs of

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[1] It is estimated that 5 million members will have 20 million dependants, the total being 70% of the agricultural population.

[2] Dr. L. C. Jain distinguishes between a money-lender and an indigenous banker. The former only makes loans, while the latter receives deposits and deals in Hundis in addition. "Monetary Problems of India" p. 55.

[3] Muranjan—Modern Banking in India. p. 179.

the artisan in the way of raw materials and very often markets his wares too. In times of famine and scarcity, at the birth of a son, or at the marriage of a daughter, he is the refuge of the zamindar. In fact, he is truly the custodian of the peasant's[1] honour.

The commercial banks are not in a position to establish direct contact with the cultivator nor can the co operative societies fill in the gap. It remains then to be considered how the indigenous bankers can be usefully employed to mediate between the money market and the peasant. Their rates are high, but their risks are also great. The ordinary peasant is either too poor or too improvident to have any ready money in reserve which he can use in emergency. Thus the need for an agency to supply capital to the needy is urgent. The bankers, therefore, cannot and should not be eliminated altogether, but their questionable practices should be strictly curbed and their business regulated as is being done in all parts of India by legislation on money-lending and rural indebtedness. They should be made to keep their accounts in a prescribed manner and to throw them open to the inspection of commercial banks in their vicinity, when called upon to do so. They would thus be eligible to receive accommodation from these banks and in case of need from the Reserve Bank.[2] The Reserve Bank has special responsibilities for the improvement of agricultural credit. Under its help and guidance the provincial co-operative banks and the commercial banks could work together for the solution of the rural finance problem.

5. The Indigenous Banker in the Town. The indigenous banker's is a hereditary business carried on mainly with family funds. He, however, does receive deposits and pays a higher rate of interest for them than the bank. He engages in trade and serves as an agent to distribute goods in the country as well as to move crops to the ports. He buys *Hundis* drawn by business men, charging them a higher rate than the bank and appropriating the difference as his profit. He also finances the trader and acts as a link between the bazar and the commercial bank by discounting *Hundis* and getting them rediscounted by the bank when he is in urgent need of funds. He lends money against any kind of security, bullion or jewellery, goods or personal confidence. He accommodates those who fight shy of the uniformed peon at the gate of a joint-stock bank and of the critical eyes of the man behind the polished counter, but at higher rates. As Sir George Schuster remarked, "It is impossible to over-estimate the part that indigenous bankers play in the whole of the banking and credit machinery of India. It would be no exaggeration to say that his part of the organization represents 90 per cent or more than 90 per cent of the whole."

6. The Indigenous Banker and the Reserve Bank. It is essential, therefore, that these bankers should be put into gear with the modern market to supply credit and banking facilities to the people of India on reasonable rates.

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[1] Punjabi Proverb : "*Shah bina pat nahin, rajah bina gat nahin.*"

[2] Muranjan op. cit. p. 180

Sir J.B. Taylor, sometime Governor of the Reserve Bank, drew up a scheme to link up the indigenous bankers with the Reserve Bank direct and suggested certain conditions for their inclusion in the Bank's approved list. They were circulated to the main joint stock banks as well as a number of indigenous bankers for opinion. These were considered to be too stiff by the Shroffs' Association at Bombay and other commercial organizations. Accordingly they were toned down and changed into the following :—

(*a*) The indigenous bankers who operated with Rs. 2 lakhs as capital and were prepared to increase it to Rs. 5 lakhs within five years were to be put on the register of the Reserve Bank's private bankers.

(*b*) They were to shed off all their non-banking activities within a certain period and to engage in joint stock banking business, especially securing deposits.

(*c*) They must maintain proper accounts and have them audited periodically. They must also be open to inspection of the Reserve Bank for determination of their financial status and regulation of their business on the right lines.

(*d*) Their balance-sheets must be published in the interest of their customers and periodical statements submitted.

(*e*) In return they were to have the privilege of having their papers directly rediscounted with the Reserve Bank, the right to obtain advances against Government paper, and remittance facilities similar to those open to the scheduled banks.

Indigenous bankers not eligible for access to the Reserve Bank under the above scheme might join together to form Discount Companies within a limited area and have their papers rediscounted.

The replies received were generally unfavourable. The indigenous bankers felt that the privilege of rediscounting of their papers with the Reserve Bank was not valuable enough for them to give up their hereditary banking activities. The Bombay Shroffs' Association were not willing to give up dealings in gold, silver, and ornaments. Nor were they prepared to publish prescribed returns as they believed that would do them more harm than good.

As a consequence of the rejection of the Bank's proposals, further progress is at a standstill. With the nationalization of the Reserve Bank it is possible that progress may be made in this direction in the future. It is essential that the bankers should fall in line, ultimately shed off their non banking activities and take to formal prescribed banking methods in their own interest as well as in the interest of the advance of banking in India. In 1948, there were only five indigenous bankers who had taken advantage of the Reserve Bank's offer and had been given remittance facilities like non-scheduled banks.

7. Co-operative and Land Mortgage Banks. Short-term and intermediate credit is supplied by co-operative societies and unions in the villages. The problem of long-term credit is crucial so far as agriculture is concerned. It is the function of the Land Mortgage Bank (*a*) to supply loans to deserving zamindar to release him from the strange-hold of the *baniya* and to set him up on his legs again ; (*b*) to buy more land ; and (*c*) to enable him to introduce such costly improvements on his land as are beyond his own pocket. We have already discussed these in the Chapter on Co-operation.

8. **Post Office Savings Banks.** These were established in 1882 with the object of encouraging the habit of thrift in the poor man. The total number of head and sub branches of these savings banks was about 27,000 in 1945 when India was undivided. With six and a half lakhs of inhabited places in India, it means no more than one bank for every 24 villages. Their achievement has been great but it does not amount to much as a whole, the total outstandings in the Savings Banks being Rs. 147 crores on 14th August, 1947. At the end of 1948, the outstandings for the Indian Dominion alone were Rs. 27 crores, not including its share of previous outstandings.

The Central Banking Report remarked : "The man in the remote interior has yet to be reached. Slender savings and small men have yet to be garnered." India compares very unfavourably with foreign countries so far as deposits per head go, as the following figures will show :—

TABLE I

Postal Savings Deposits in Some Countries

Name of country		Population[1] in millions	Deposits in millions of rupees	Deposits per head in rupees*
Canada	...	10	63	6
The U.S.A.	...	112	33,44	30
The U.K.	...	44	43,80	98
Japan	...	60	38,32	64
India	...	389	5,233[2]	1,26

*The figures are approximate.

It has been suggested that these savings banks could be improved (*a*) if the limits imposed on deposits of money were raised and other privileges granted, and (*b*) if the funds could be operated by cheques in Indian spoken languages.

The first suggestion has been adopted by the Government as the annual limit of net deposits for every account-holder was raised from Rs. 750 to Rs. 1,500 from 1943. From August 1942, the Savings Banks started accepting cheques in their transactions. Women have also been allowed to open accounts through their agents from 1943. Since then there has been a marked improvement in the volume of small savings and the campaign launched by the Central Government and pursued by most of the provinces has met with some success. Certificates were sold in villages by authorised agents of Government on commission basis.

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[1] Stamp—The World. [2] Report on Currency and Finance, 1942-43.

The second suggestion is not feasible as the keeping of accounts would be beyond the capacity of the present single clerk, a poorly paid man, in small post offices.

Effects of the War on Savings Banks. The outbreak of the war saw heavy withdrawals from the Postal Savings Banks as well as hurried encashments of Postal Cash Certificates owing to nervousness. By 1943, things settled down and confidence was restored. Deposits in these banks started increasing and reached the figure of over Rs. 80 crores in 1944-45. Since then they have gone up to Rs. 147 crores in 1947-48 (for combined India).

In April 1941, a new scheme of Post Office Savings Bank accounts, known as the Indian Post Office Defence Savings Bank accounts, was introduced. Its attraction was 2½ per cent rate of interest free of income-tax, *i e*, 1 per cent higher than the existing rate on ordinary Postal Savings Bank accounts. In 1943, the fund had Rs. 40 lakhs to its credit. In April 1947, the total amount in this fund was Rs. 11 crores but on 31st March, 1948, only Rs. 3.16 crores. Later, new 12-Year National Savings Certificates were introduced with a yield on maturity of nearly 3½% compound interest free of income-tax. Also from the 1st of October, 1943, the rate of interest on post office savings bank deposits was increased from 1½% to 2 % on balances that did not fall below Rs. 200 during the year. As a result there was an improvement in deposits and investment from January 15, 1944, onwards. Premium Bonds carrying no interest but giving half-yearly prizes were on sale to the public. They were repaid at par in 1948.

The yield on the]Post Office 5-Year Cash Certificates is 2½ per cent free of income-tax and on 10-Year Certificates 3⅛ per cent. The total volume of outstandings in the small savings funds at the end of 1947-48 came to Rs. 123 crores only. This amount includes Postal Cash Certificates, Defence and National Saving Certificates as well as Defence Saving Bank Deposits.[1]

9. Joint-Stock Banking in India. (i) *Early History.* The Agency Houses of Calcutta and Bombay introduced modern banking in India in the 18th century. Their banking operations were, however, entirely subordinate to their main business of trade and were adopted only to further it. Joint-stock banks that followed had an unlimited liability and were managed by Europeans. They performed the important service of circulating notes in the country.

The commercial crisis of 1829-30 gave a death-blow to the Agency Houses that had been indulging freely in speculation. From 1830 to 1880 banking habits made a very slow advance. A good many of the joint-stock banks that were formed during this period closed their doors later. The principle of limited liability came to be recognized only as late as 1860.

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[1] For details see Report on Currency and Finance, 1947-48, Statement XXII and XXIII.

(ii) *The Presidency Banks.* The three Presidency Banks of Bombay, Bengal and Madras, that played so important a part in the banking fortunes of India, however, emerged during this period of stress. Before 1862 they were directly controlled by the Government and certain restrictions were imposed upon their activities. In 1862 their right of note-issue was taken away but they still worked as agents to Government. The restrictions on their business were also relaxed, as a direct result of which the Bank of Bombay failed in 1868. A second Bank of Bombay was floated in the same year. In 1876, an Act was passed by which the old restrictions were almost wholly reimposed. The Government still banked with them, but to a limited extent. Thus although they were not State banks, they maintained this connection till 1921, when they were amalgamated into the Imperial Bank of India.

(iii) The first purely Indian joint-stock bank, the Oudh Commercial Bank, was started in 1881. It was followed by the Punjab National Bank (1894), and the People's Bank of India (1901). Till 1880, the economic conditions were static and prices were falling; hence there was no progress in banking. After 1880 banks improved to some extent, but in the next decade they gained substantially.

The Swadeshi Movement of 1905 gave a great stimulus to Indian banking. The steady rise in prices and the large addition to circulating currency after 1898 added to the momentum. There was a boom in banking and India saw a deluge of banks. Some of them were bad, others like the Bank of India, the Bank of Baroda and the Punjab and Sindh Bank have proved to be solid and reliable. They made rapid progress till 1913, when Indian banking was overtaken by a crisis. The People's Bank of India involved many others in its ruin. Bank after bank was caught in the vortex and met with disaster until as many as 50[1] had failed.

World War I brought about a mild boom in banking and India saw a new crop of floatations. As war progressed, failures kept pace with it. But the post-war depression was responsible for failures, the most important of which was the Alliance Bank of Simla, a bank of long standing with a paid-up capital of Rs. 88 lakhs and total deposits amounting to more than Rs 16 crores. The failure was mainly due to the imprudent spreading out of Boulton Brothers, the London agents of the bank. The disaster was so great that the Government directed the Imperial Bank to undertake the repayment of 50 per cent of their deposits to the Alliance Bank's customers and guaranteed the bank against any loss in the transaction.

The world depression that set in, in 1929, inevitably brought a large number of bank failures in India in its train. Between 1931 and 1936, no less than 238 banks closed their doors. But most of them were small fry and only five had a capital of Rs. 1 lakh and over.

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[1] Muranjan, op. cit., p 290. Jather and Beri report the toll at 55. See Indian Economics, Vol. II, p 434, while Mathur puts it at 100.

The year 1928 witnessed yet another banking crisis. Luckily it was confined to South India but it carried away with it one of the biggest banks there, the Travancore National and Quilon Bank. This bank failed three years after the Reserve Bank had been in existence. At the time of its failure the Reserve Bank hesitated to come to its rescue without a proper investigation of its affairs, but it was too late then. This failure has proved the urgent need of finding out the kind of assets ordinarily held by Indian banks and selecting the quality eligible with the Reserve Bank.

The above history covering the brief period of 1900 to 1936 shows that Indian banking has passed through one major crisis, lived through a World War, survived through one of the longest and worst depressions in history. Since then it has been in the throes of another World War. In order to learn lessons for the future there is an urgent need to find out the causes of previous failures.

10. Causes of Failures. Banks are not like other joint-stock institutions. They involve in ruin not only their share-holders, but also their depositors. It is, therefore, very essential that we should analyse the causes of their failures and avoid the same mistakes again. These are :

(*a*) Lack of experienced and trained managers. During all the crises discussed above more than two-thirds of the failures were of banks that were less than ten years old. A large majority of the insolvent banks had a paid-up capital of less than a lakh of rupees. They were so small that even the names of some of them are untraceable. Without business ability and proper training banks must fail like any other institution. Mere noble intentions do not lead them to success.

(*b*) There was a big discrepancy between paid-up, authorized and subscribed capitals. It is only recently (during the last war) that the Government legislated to remove this glaring defect in banking practice in this country.

(*c*) Big names were used to entrap the gullible investor. Fraudulent accounts were kept. Books were falsified. Loans were given on insufficient security or on no security to directors and their friends.

(*d*) Speculation and the desire to declare quick and high dividends has always been a temptation which has sent many a fine bank to its doom. The Indian Specie Bank was one of the chief victims of speculation in silver.

(*e*) Commercial banks with short-term deposits cannot afford to lock up their assets in industrial undertakings. A bank mainly runs on confidence and like Caesar's wife must be above suspicion. If it does not hold liquid assets it is bound to meet with disaster in case of panic and a consequent run on it. The People's Bank twice failed due to the advance of large funds to industrial enterprises. The Tata Industrial Bank had to amalgamate with the Central Bank of India for the same reason.

(*f*) Misfortune was never the only cause of bankruptcy and failure. It is always helped by negligence and incapacity, if nothing worse steps in. The Alliance Bank of Simla received a knock-out blow due to the imprudent expansion of its London agents.

(*g*) The ratio of liquid assets to liabilities should be fairly high, higher in India where the public is yet largely ignorant and uneducated and, therefore, more easily swayed by baseless bazar rumours than in England. It was this low ratio of cash to liabilities that enabled a discerning economist like Lord Keynes to prophesy disaster for Indian banks in 1913.

Classifying the various causes of bank failures it seems that one important cause was their immaturity and inexperience. It is unfortunate we had not learnt a lesson from bank failures in England. British banking is said to be the most solid in the world. But the road to this solidity is strewn with the memories of failures of hundreds of banks in the past.

The second major cause appears to be the prevalence of unit banking. There were and still are hundreds of small banks scattered all over the country which are not big enough to be put upon the second schedule of the Reserve Bank. Many of them do not provide a weekly statement of accounts. The ratio of their assets to liabilities was about 7 per cent in 1948, which is very low indeed.

Another peculiar thing which has made itself prominent in India today is that many business magnates who have established groups of industries around them have thought it advantageous to have at their disposal a bank functioning for this group and dominated by themselves. The Bharat Bank, the Oriental Bank of Commerce, the United Commercial and Hindustan Commercial may be cited as examples. The tendency has been causing concern to economists.

Imprudent investment is another important cause of failures. This imprudence is directly the result of an absence of opportunities for investment of the funds of banks in India. India does not possess a developed Bill market.

The *laissez faire* policy of the Government has also been condusive to bank failures. There was no co ordinating agency to link together the various heterogeneous elements in the Indian banking. It was only as late as February 1949 that the Banking Law was codified.

It must be admitted, however, that neither the world-wide depression of the 'thirties nor the Second World War, and not even the cataclysmic partition of the country into two halves has succeeded in giving a serious set-back to development of joint stock banking in India. She has not escaped unscathed in these catastrophies but more advanced countries have suffered heavy losses.

11. Business of Joint-Stock Banks. The usual business of joint-stock banks in India consists of :

(*a*) Receiving deposits of all kinds— fixed, current and savings.

(*b*) Discounting internal bills and *hundis*, advancing loans against approved stocks and shares, against immovable property and commodities like grain and piece-goods. They also allow limited overdrafts to approved customers for short periods of time.

(*c*) Transmitting funds from one place to another on behalf of customers through bank drafts and letters of credit.

(*d*) Purchasing and selling shares for clients on a commission basis.

(*e*) Keeping documents and jewellery in safe custody.

In fact they finance the internal trade of the country leaving foreign trade severely alone. Foreign Exchange Banks who have large capital and reserves do not allow them even a look-in. The margin of profits in foreign exchange business is too low and the funds needed too large for them.

Further, they have very little to do with the marketing of agricultural products as the masses in the villages are illiterate and the security they can offer is not liquid enough for this type of banking. The absence of properly managed warehouses and godowns is mainly responsible for the lack of agricultural bills which could be discounted by joint-stock banks in this country.

12. Assets and Liabilities. The liabilities of joint-stock banks are their capital, reserve and deposits. The capital and reserve serve as the basis of public confidence in a bank. They work as its first line of defence. The usual ratio between these and deposits is 12 to 14 per cent in the case of scheduled banks in India. The ratio depends upon the economic condition of the country and amount of money seeking to be deposited.

The assets of joint-stock banks consist of (1) cash ; (2) bills discounted; (3) Government and other securities; (4) loans and advances to individuals, firms and the money-market ; and (5) fixed properties like buildings.

The ratio of cash maintained by a bank to its liabilities is a very important matter as a depleted cash position might result in disaster. Discounted bills and Government securities come next in importance for defence against sudden and heavy public demands on the bank. Indian banks require greater liquid sources due to their greater vulnerability to rumour. British and American banks have a lower cash ratio which ranges roundabout 10 per cent against 15 per cent in India. The Indian banks have learnt their lesson from the panics and runs they have had to face during their brief existence.

The table given on next page shows the position of Indian joint-stock banks[1] from early times up to date. It will be seen that during the war years they have been wisely keeping higher cash reserves. The average for 1947-48 of 13·4 per cent is better than for 1939-40, but less than for war years but it is adequate considering the large amount of Government securities these banks carry in addition. If,

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[1] They are all banks with a capital of over Rs. 5 lakhs.

however, the cash position of these banks is compared with that of the Imperial Bank, they are in a weaker position which should not be.

TABLE II.

Joint-Stock Banks, Class A (with capital over Rs. 5 lakhs).

(In lakhs of rupees)

Year		No. of reporting banks	Capital and Reserve	Deposits current and fixed	Cash	Percentage of cash to liability
		a	b	c	d	i. e. d to e
1918	...	18	3,64	22,59	4,00	18
1923	...	26	9,73	44,43	7,37	17
1933	...	34	12,33	71,68	10,92	16

Consolidated Position of Scheduled Banks after the creation of the Reserve Bank.

(In lakhs of rupees)

Year		Number of Scheduled Banks	Liabilities Demand	Time	Cash	Cash Balances with Reserve Bank	Percentage of cash to liability
1939-40	...	59	139 65	106,03	7,08	17,43	10·0
1942-43	...	61	306,28	104 21	12,97	55,73	16 7
1945-46	...	91	703,65	259,22	34,80	89,91	13 6
1947-48	...	101	706,65	343,89	39,92	100,81	13 4

In addition, there is a very large number of joint-stock banks —as many as 1,421 in 1938—which are not on the scheduled list of the Reserve Bank. Out of these only 685 submitted returns to the Reserve Bank at the end of 1947 against 659 at the end of 1946. Their progress is clear from the following table :—

Non-Scheduled Banks' position

(In lakhs of rupees)

Date and year December		No. of Banks submitting Returns	Liabilities Demand	Time	Total	Cash	Percentage of Cash to liabilities
1940	...	604	5,26	11,48	16,71	1,30	7·8
1942	...	534	11,06	13,59	24,65	2,63	10 7
1944	...	613	24,84	28,29	53,13	6,04	11·0
1946	...	659	...	...	78,44	...	8·4
1947	...	685	...	...	45,49	...	7·14

The number of non-scheduled banks submitting returns to the Reserve Bank was 685 maximum during the eight years, but the ratio of cash to liabilities was 7·14% during the last year. The resources of these banks were small and generally they kept the minimum necessary cash but because of the increase in deposits and the uncertainties of the war and post-war period they increased their cash balances, the percentage to total demand and time liabilities in 1945 being 12 6% against 7 8% in 1940. Their total liabilities have greatly decreased in 1947 being Rs. 45 crores against Rs. 7 crores at the end of 1946. The large reduction in the deposits o these banks appears to be the result of disturbances in certain part

of the country, but unlike the scheduled banks their time liabilities exceed the demand liabilities. Seventy-eight of these banks enjoy concession rates of remittances by the Reserve Bank. From February 1945, it was decided that non-scheduled banks desirous of opening accounts with the Reserve Bank might be allowed to do so at the Bank's discretion if they agreed to maintain a minimum balance of Rs. 10,000 with it. Out of 33 applications received only nine were accepted ; a few are still under consideration.

It is obvious that the banks in India need a still more consolidated position. The size of the average bank is much smaller than in other countries. The total number of branches and pay offices of the scheduled banks declined from 3,566 on 30th June, 1947, to 3,490 on 30th June, 1948, a decrease of 76 against an increase of 421 in the previous year. This reduction was partly the result of the disturbances in the country in the post-partition period which led the scheduled banks to close some of their offices and partly due to the operation of the Banking Companies (Restrictions of Branches) Act, 1947. During 1947-48, 26 new offices out of 79 were opened at places which were not previously served by a scheduled or non-scheduled bank of over Rs. 50,000. This is a welcome sign, but greater progress is needed in this direction.

13. **Joint-Stock Banking during the War and after.** The Indian banks weathered the storm of the war well. There were heavy runs on them in the first few weeks after the declaration of war in 1939 and on the fall of France in 1940, but they met them with great confidence. The later grave turns in the war, especially the occupation of Burma by Japan, which brought war to the very borders of India, did not shake their position. The sudden withdrawals due to nervousness caused by the initial successes of Japan forced a few scheduled banks in South India to approach the Reserve Bank for accommodation, but this was a temporary phase. The Reserve Bank held out a helping hand, be it said to its credit, to each one of them, which quickly restored public confidence.

There was a huge increase in the total deposits of the scheduled banks from Rs. 242 crores in 1937-38 to Rs. 871 crores in July, 1945. This big increase was brought about by the huge expansion in the currency. During the last six years no less than Rs. 1,039 crores of notes were pumped into circulation which rose from Rs. 182 crores on 1st September, 1939, to Rs. 1,221 crores in July, 1946.

There was a large expansion in the demand liabilities of the scheduled banks from Rs. 140 crores in 1939-40 to Rs. 704 crores in 1945-46. This high figure reflects a plethora of money and its relative inactivity.

Time liabilities, on the other hand, did not increase with the same consistency and steadiness. There was actually a fall of Rs. 2 crores in 1942-43 over the previous year. This decline was entirely due to nervousness created by the deteriorating position of the Allies on the war chess board. Next year, however, the Allied victories restored public confidence which was reflected in increasing time deposits which went up to Rs. 259 crores in 1945-46 but still they did not increase at the same rate as demand liabilities.

As the bulk of their funds were payable on demand during war years, the banks had to maintain larger cash reserves. They found a limited outlet in the Treasury Bills of the Government of India which, too, were not very remunerative. They were, therefore, keeping larger reserves with the Reserve Bank than actually required by law. After the end of hostilities conditions have changed and time liabilities have gone up to Rs. 344 crores in 1948 as compared with Rs. 260 crores in 1946.

The war brought about a great shrinkage in loans and advances of banks as well as in the discounting of trade bills up to 1942-43. This was due to the direct financing of war contracts by the Government and the prompt payments made by them for supply of goods. The increase in earnings of industrial enterprise reduced their demand for accommodation from banks. As foreign imports went down—both of capital and consumer goods—less trade bills were created. The table below shows the sharp fall in banks' advances, loans and bills discounted and their increased investment in Treasury Bills up to the year 1942-43. Later, however, a reverse tendency set in.

The increase in the advances of scheduled banks in 1945-46 over 1942-43 was exactly threefold while the increase in bills discounted was about eightfold in the same period, thus indicating the improvement in trade conditions and a greater demand for money for investment purposes from the market. In spite of this improvement, however, the banks still maintained Rs. 40 crores excess of balances with the Reserve Bank in March, 1946.

TABLE VIII[1]

Advances, Loans and Bills discounted of Scheduled Banks

(In lakhs of rupees)

Year	Advances	Bills Discounted	Excess of Balances with Reserve Bank over the Statutory Minimum
1939-40	121,47	497	863
1942-43	95,68	218	3883
1945-46	285,07	1607	5199
1947-48	427,54	4682	5860
	(39,40)[2]	(100)[2]	

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[1] Report on Currency and Finance, 1947-48.

[2] Figures in brackets are for Pakistan and are below the consolidated figures for India and Pakistan.

Government of India Three Months' Treasury Bills
(In crores of rupees)

Year	Amount tendered	Amount sold	Amount Outstanding
1933-40	117	70	55
1942-43	527	309	265
1945-46	205	118	83
1947-48	140	85	99

A few large commercial banks like the Bharat Bank and the Bank of Jaipur with big capitals were floated in 1943. In addition to the newly-started large banks, some of the non-scheduled old ones became scheduled either by an increase of capital or addition to reserves or both. North India, especially the Punjab, was venturesome in taking advantage of the vast amount of redundant money in the country. The number of scheduled banks submitting reports to the Reserve Bank increased from 55 at the advent of the war to 91 in 1946. The resources of the banks increased enormously. They emerged safely out of the greatest war the world has seen. The proposed new piece of Banking legislation meant for stricter regulation and supervision of smaller banks and for safeguarding the interests of the innocent customer was not passed till 1949. With conditions of easy money the rates of interest kept low. The bank rate and the Imperial Bank *Hundi* rate were maintained at a steady 3 per cent. The joint-stock banks allowed only ¼ per cent interest on demand liabilities and 1½ to 1¾ per cent on funds deposited with them for a year during war years

When the banks' resources cannot find useful employment in advances, loans and discounted bills, they must obviously invest more funds in Government securities—short-term ones like Treasury Bills or long-term ones like 3½ per cent Government Paper, the minimum prices of which have been fixed so as to debar depreciation in their value.

14. Banking Legislation in India. (1) *Laissez-faire Policy.* No serious attempt was made to codify the law relating to banking in India during the last century. The Government followed the same *laissez faire* policy in banking as in other economic matters in India as in England.

(2) *Indian Companies Act, 1913.* A few provisions distinguishing banking companies from other companies were included in this Act. Even the bank failures during World War I and later did not bring home to the Government the need for banking

legislation. The Central Banking Enquiry Committee recommended the codification of a banking law, but the Government only thought fit to amend the Indian Companies Act of 1913 in 1936 and the amended Act had one whole part (X—A) specially devoted to banks.

(3) The Indian Companies (Amendment) Act, 1936, had the following important provisions relating to banks :—

(*a*) It defined a banking company as one "which carries on as its *principal* business the accepting of deposits of money on current account or otherwise, subject to withdrawal by cheques, draft or order." Such a company was allowed to carry on incidental business of a varied type. The definition lacked precision.

(*b*) A minimum working capital of Rs. 50,000 from shares was necessary before operations could be started.

(*c*) Managing Agents were prohibited from managing banking companies to be floated in the future.

(*d*) A reserve fund was compulsory. At least 20 per cent of the profits was to be credited to the Reserve funds every year till the fund equalled the paid-up capital.

(*e*) A banking company must maintain a cash reserve of 1½ per cent against its time liabilities and 5 per cent against demand liabilities and submit monthly statements to the Registrar of Companies.

(*f*) A banking company was not allowed to form a subsidiary company or hold shares in it unless it was a company founded by itself for undertaking trusts and administering estates.

(*g*) Provision was made for a moratorium, *i.e.*, a temporary suspension of payments, in order to save a banking company from liquidation, if it was found that it was involved in temporary difficulties only.

The Act of 1936 revealed a good many defects in working. A separate Bank Act was needed to regulate banking in India. Sir James Taylor, the late Governor of the Reserve Bank, put forward in 1939 a comprehensive scheme as a basis for legislation to further this essential object.

The declaration of war in 1939 interfered with the proposed legislation and it had to be postponed. At that time, Indian joint-stock banking was in a sound enough position and was equal to the strain put on it. Till 1942, the banks had to experience great difficulties on account of a sharp decline of business due to enemy action at sea and loss of European markets. Later there was a rising tempo of war. Business expanded as India was made the Allied base for war against Japan and increased purchases were made in India on behalf of the Allies. Inflationary conditions resulted in a slow increase in advances, a rapid increase in deposits, but as the table below shows the greatest increase was in the total working capital of scheduled banks.

TABLE VII

(In crores of rupees.)

Year	No. of Scheduled Banks.	No of branches.	Time liabilities	Demand Liabilities.	Cash	Balances with Reserve Bank	Advances and bills discounted	Notes in circulation
1938-39	55	1,128	108	130	7	16	121	189[1]
1942 43	61	...	104	306	13	56	98	644
1945-46	91	3,115	260	655	35	90	301	1219
1947-48	101	3,490	344	707	40	101	444	1304[2]

The development of banking in India during the war and after no doubt presents an impressive picture but has not been free from certain undesirable features. Some of these were checked by the action of the Reserve Bank through suitable amendments of the Indian Companies Act, *e.g.*, the extreme divergence of ratio between authorized, subscribed and paid-up capitals, issue of different classes of shares with disproportionate voting rights and unfair terms of agreement with managing directors after the appointment of managing agents had been prohibited. The Reserve Bank felt the urgent need for comprehensive legislation to safeguard the interests of depositors and ensure proper development of banking. Accordingly a new Banking Bill was framed on the lines suggested by Sir James Taylor with improvements to fill gaps shown by war-time experience but it could not become a law.

The Governor of the Reserve Bank, in his speech at the annual meeting of the Bank in 1945, warned banks against certain evil tendencies which had intensified themselves due to plethoric monetary conditions and which made early banking legislation an urgent necessity. These evil features may be mentioned as :—

(*a*) Indiscriminate branch banking with a view to attracting deposits at high rates of interest. This policy tempts banks to assume great risks to make profits.

(*b*) Tendency to acquire control over non-banking companies by the purchase of their shares regardless of price and yield. Closely allied to this are the interlocking of interests between banks and industrial concerns, the holding of large blocks of shares of concerns controlled by the directors, and the floatation of investment trusts for such a purpose. In general, there is a tendency to use a part of the depositors' money for the benefit of the management which is against the traditional canons of sefety and liquidity ;

(*c*) The excessive manipulation practised at the time of the preparation of balance-sheets which gives an altogether misleading impression about the bank's financial position.

(*d*) Besides, " there are also indications that certain banks

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1. Including Rs. 10,74 lakhs for Burma.
2. Finance and Currency Report for 1947-48. Figures for Pakistan are included.

obtained windfall profits through speculative operations in shares or Government securities or immovable properties and then frittered them away in paying dividends instead of strengthening their reserves." To checkmate these evil tendencies legislation was called for.

(4) The Banking Companies Bill, 1945, lapsed when the Assembly was dissolved and the final one was presented in 1948. During the interval the Central Government issued some ordinances to give powers to the Reserve Bank to keep in control the evil tendencies in banking. Accordingly the Banking Companies Ordinance of 1946 gave power to the Government to direct the Reserve Bank to inspect the affairs of any banking company. It also enabled Government to take corrective action against any bank if it thought that its affairs were being conducted to the detriment of its depositors. It might exclude the Bank from the scheduled list or stop it from receiving fresh deposits as a penalty.

Two other ordinances were passed in 1946 to regulate banking in India. The Bearer Promissory Notes (Prohibition of Issue) Act prohibited banks from issuing promissory notes payable to bearer which passed from hand to hand and were equivalent to Bank notes. The next measure, the Banking Companies (Restriction of Franches) Act, was passed by the Legislative Assembly in November, 1946. According to this, no bank could open any new branch or change the location of an existing branch without the previous written permission of the Reserve Bank.

(5) Again, the Government of India, mainly with a view to help such banks as might find themselves in difficulties due to the partition of the country, promulgated an Ordinance in September, 1947, empowering the Reserve Bank to grant emergency advances to Scheduled and non-Scheduled Banks against such security as it may consider sufficient.

It was seen that after the partition a few medium-sized small banks in East Punjab found it difficult to meet the claims of their depositors as most of their assets were in West Punjab while their liabilities had been transferred to India. In some cases even their records were not available. In order to help such banks to tide over their difficulties, another Ordinance was passed in September, 1947, empowering Government to declare a moratorium for 3 months during which such banks as applied for it were to make payment not exceeding 10 per cent of their deposits or Rs. 250, whichever was less, in a month. This Ordinance lapsed in March, 1948.

(6) Banking Companies Act, 1949. The old Banking Bill of 1946 was withdrawn from the Constituent Assembly in January, 1948, and a new bill was introduced instead on March 22, 1948. It is this bill which was passed on February 17, 1949, and was put into effect from March 16, 1949. Thus, it is the culmination of a long series of proposals starting with the Banking Bill of 1939 and includes the various ordinances promulgated to protect depositors between 1946 and 1949. In this Act—

1. Banking has been defined as "the accepting for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise". No company can carry on work unless the word "bank", "banker" or "banking" is used as a part of its name. Every banking company will have to take out a licence from the Reserve Bank who, before giving the licence, will satisfy itself that the company is in a sound position, and in respect of a foreign banking company that the law of the country of its incorporation does not discriminate against Indian banking companies.
2. The Act applies to all banking companies in all provinces and acceding States but excludes co-operative banks.
3. The Act prescribes conditions of minimum capital and reserve required. These vary according to a "geographical coverage" of its operations. For instance, if the operations of the bank extend to more than one province, minimum capital required is Rs. 5 lakhs, if in addition it has business in Bombay and/or Calcutta, Rs. 10 lakhs and so on.

Banking companies incorporated outside India must have had a paid-up capital and reserve of Rs. 15 lakhs and if Bombay and/or Calcutta is also a place of their business, Rs. 20 lakhs. No such company shall be considered to have complied with this condition unless it deposits this sum with the Reserve Bank in cash and/or approved securities.

4. Subscribed capital shall not be less than 50% of authorized capital and paid-up capital shall not be less than 50% of subscribed capital. Voting rights shall be in proportion to the contribution of capital but in no case shall they exceed 5% of the total voting rights.
5. Every scheduled bank shall continue keeping reserves with the Reserve Bank at the old rate of 2% of its time liabilities and 5% of its demand liabilities. Non-scheduled banks have also been brought within the gambit of this section for they, too, are henceforth required to maintain cash reserves with themselves and/or the Reserve Bank the same percentage of reserve and to submit monthly returns giving details of cash held on each Friday of the month.
6. Every banking company, after the expiry of two years from the date of the Act, shall maintain in India in cash, gold or unencumbered approved securities valued at market price not less than 20% of its time and demand liabilities. (Reserves with the Reserve Bank are included.)

The assets of a banking company in the provinces and acceding States of India, at the close of every quarter, shall not be less than 75% of its deposits therein.

7. Interlocking directorates among banking companies are prohibited. Managing agents are not to be employed. Unsecured loans to directors or firms in which they are interested are prohibited. Monthly returns of such loans are to be submitted to the Reserve Bank. The Reserve Bank is authorized to determine policy in relation to all advances of banks and to fix margins to be kept in respect of secured loans.
8. No banking company shall pay any dividend until all its capitalized expenses have been written off. Not less than 20% of the profits shall be put in the Reserve Fund till this Fund is equal to the paid-up capital.
9. No banking company can open a branch in a new place without the previous sanction of the Reserve Bank.
10. Trading as a business is prohibited to a banking company. It shall not be managed by a managing agent or by a person who has been declared an insolvent or convicted or who takes a commission in the profits of the company or is engaged in any other vocation.
11. Vast powers have been given to the Reserve Bank. The Bank has now the power to control the entire joint-stock banking system. It can mould its lending policies prohibit a particular transaction, call for periodical as well as *ad hoc* returns and publish them if it thinks it necessary. It may inspect any bank, and the Governor of the Bank is allowed in an emergency to suspend the Act for 30 days.
12. The Reserve Bank is required to make an annual report to the Central Government on the trend and progress of banking in the country with suggestions for improvement.
13. An expeditious procedure for winding up and liquidation of banking companies has been laid down, and the Bank has been given powers in respect of amalgamation of banking companies.

It is thus seen that the Reserve Bank has at last secured powers to coordinate and regulate banking in the country. The new Act enables the Bank to eradicate several grave defects prevalent in the banking system, such as the existence of a very large number of small banks, their successive crowding in the major cities and towns of India, and the high risks they take in their investments to earn large profits.

15. **Foreign Exchange Banks**.—*Their position.* There were 15 Exchange Banks in India in 1946. They are the branches of large institutions incorporated outside British India. They are not subject to the provisions of Indian Company Law. The following table shows their growth and position in India :

TABLE VIII[1]

Year	Number	Capital and Reserve in million £	Deposits in India in crores of Rs.	Cash balances in India in crores of Rs.	Percentage of cash to liabilities in India
1920	13	90·2	75	25	33
1940	20	128·2	85	17	20
1945	15	15[illegible]·9	184	27	14
1946	15	156·1	151	32	20

The table also shows that the private deposits of these banks have grown considerably.

Two of these banks, Thomas Cook and Son[2] and the American Express Co. are mostly concerned with tourist traffic. Of the rest, 3 have a considerable portion of their business in India while the others are mere agencies of bigger banks, a larger portion of whose business is outside India. The names of five big Exchange Banks are Lloyds Bank, the Chartered Bank of India, Australia and China, Messrs Grindlay and Co., the Mercantile Bank of India and the National City Bank of New York.

Functions of Exchange Banks. (*a*) They finance the foreign trade of India. It is a remunerative business—the total annual trade of India amounted to Rs. 800 crores in 1948. It has been estimated by experts that only 15 per cent of the trade is financed by Indian banks, whose share only consists of the movement of commodities to the port towns from where the financing to foreign countries is arranged by the Exchange Banks.

(*b*) The Exchange Banks have a fair number of branches scattered all over India. They raise deposits from the Indian people and undertake the kind of business done by Indian commercial banks in financing the internal trade of India to a considerable extent. The war has brought about a decline in the number of branches of the Exchange Banks. Rising to 103 in 1941, the number fell to 85 in 1944.

The Exchange Banks buy Indian export bills usually maturing after three months. These bills are almost always Documents on Acceptance (D.A.). They are sent immediately to London and discounted at the low prevailing rates. In order to transfer their funds back to India the banks adopt various plans such as (*i*) selling sterling to the Reserve Bank in London, (*ii*) buying rupee-paper in London and selling it in India, (*iii*) supplying the needs of tourists and students in England on receipt of rupees in India and (*iv*) importing bullion into India for sale purposes.

The bulk of India's export trade from Europe is financed by 60 days' bills known as Documents on Payment (D. P.). They are discounted in London and sent to India for collection through the Exchange Banks. The peculiarity of D. A. bills is that the moment the bill is accepted by the foreign importer through the Bank, he can obtain possession of the goods, while he may make the payment at the maturity of the bill. The D. P. bills do not entitle the Indian importer to the immediate possession of the goods. He, therefore, executes a trust receipt in favour of the exchange bank thus holding goods as a trustee of the bank till he makes the payment. He pays interest at the rate of 6 per cent for this period. So long as the Indian import trade is not financed by D.A. bills in rupees and discounted in India, a proper discount market cannot be developed here.

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[1] Statistical Tables issued by the Reserve Bank of India, 1943.

[2] Its business in India has been amalgamated with that of Messrs. Grindlay and Co.

Grievances against the Exchange Banks. There cannot be two opinions about the detrimental effects of the working of these banks in India. (*a*) Indian commercial banks seriously complain of their competition in the internal trade of the country. The latter have larger resources and can, therefore, attract deposits at cheaper rates. (*b*) They are also alleged to offer greater facilities to their own nationals in India's foreign trade, thus using funds raised in India against the interest of Indians. (*c*) They are accused of forcing Indian exporters to insure their goods with foreign companies. This proves a great obstacle in the way of the development of this type of business by Indian Insurance Companies. (*d*) Indians are not allowed to rise to positions of trust in these banks. The highest post open to them is that of a cashier. (*e*) These banks are said to divert Indian capital to foreign industrial and gilt-edged securities. (*f*) That their staff run down some Indian banks, is another complaint against them.

Lack of an Indian Exchange Bank. It is argued that the financing of internal trade is more remunerative than that of external trade. Therefore, the Indian joint stock banks with the comparatively smaller funds at their disposal are naturally content with the former. A foreign trade bill locks up money for 3 months at the most. The Indian joint stock banks today either lock up large funds in Government securities or keep them in the Reserve Bank of India for want of a better outlet. Their participation in foreign exchange business could usefully employ their large spare funds.

It is also asserted that skilled personnel is not available in India to carry on foreign exchange business with success. This is not a cogent argument. "Required staff could be secured without much delay" was remarked by the Governor of the Imperial Bank in his evidence before the Central Banking Enquiry Committee.

The main obstacle in the way of Indian joint-stock banks taking up this business is the difficulty of opening branches and working them successfully in foreign countries. There are political and currency complications. A branch in a foreign country needs huge capital, great experience and prestige to attract funds. Our commercial banks are not in a position to open these branches.

It is good that the Bank of India have opened a branch in London. Even if the branch works at loss in the first few years it does not matter. India being free now it is but proper that such branches should be opened in all countries, especially in the U.S A. and in the United Kingdom..

It has been suggested in the Central Banking Report that the Imperial Bank of India should take to foreign exchange work but it should have 75 per cent Indian directors on Local Boards before it does so. It should also completely stop recruitment of non-Indian staff.

As an alternative to this scheme, an all India Exchange Bank with a capital of Rs. 3 crores is suggested. The Indian joint stock banks may subscribe the whole or major portion of it to ensure that the Bank does not compete with them in the financing of domestic trade The Bank would undertake Government remittances and work under the supervision of Reserve Bank of India.

In the meanwhile, Indian commercial banks might open agencies in big foreign centres on a co-operative basis

Some Indian economists want very strict restrictions on the activities of Exchange Banks in India. They would like to confine their operations to the port towns and disallow them from accepting deposits from Indian nationals. They would also compel them to engage Indian personnel with the exception of a foreign manager and one assistant manager. Such restrictions are bound to invite retaliation against Indian banks when they spread out to foreign countries, as they surely will, in course of time. Hence the best weapon to fight against the Exchange Banks is an Indian bank. Undoubtedly it would be difficult to wrest foreign trade business from these established institutions, but it is not impossible with a National Government at the helm of affairs. No new bank should be allowed to start business in India without permission of the Reserve Bank which should be given only on a reciprocal basis. Even the present banks should be asked to take out licences. Secondly, these banks should supply full information to the Reserve Bank about their working in India and give responsible posts to Indians. Thirdly, they should employ Indian funds in Indian business and not transfer them outside.

16. The Imperial Bank of India. A State Bank has always had great glamour for Indian imagination. Various proposals were put forward in early times[1] for such a bank but they were not adopted. The first serious experimental effort towards this objective was made in 1921 when the three Presidency Banks with their 59 branches were amalgamated into the Imperial Bank of India. This union of rivals was due to a realization of the need of the times and fear of competition from abroad. The crisis of 1913-14 had added to the urgency of the need for a State Bank to control, stabilize and regulate banking in India.

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[1] See Muranjan, op cit.

Under the scheme the capital of the newly created bank was raised from Rs. 375 lakhs to Rs. 532 lakhs. It remained a private concern but it was meant to serve the State in some financial activities, hence its operations were restricted by law and its management controlled within limits by Government. Its private deposits came to Rs. 74 crores and public deposits to Rs. 7 crores in 1931 while the cash it held and its investments in approved securities amounted to Rs. 57 crores. Thus the magnitude of its resources gave it the position of a leader in the banking world. Its private deposits were about 33 per cent of the total in India. The number of its branches which had increased to 161 in 1926 were more than one-third of all the joint stock banks. It had large public deposits, too, on which it paid no interest. Its business was circumscribed within the bounds of safety by law. It was, therefore, natural that it should wield vast power and influence in Indian banking, credit and commerce.

The Imperial Bank had a Central Board and three Local Boards. The Government reserved to itself the right of appointing two Managing Governors to the Central Board. They also nominated the Controller of Currency to this Board to watch Government interests. They were further entitled to issue instructions to the Bank with respect to the safety of their balances and their financial policy.

The Bank undertook all the general banking business of the Government, that of accepting deposits and holding balances on its behalf. It managed the public debt and opened 102 more branches[1] between 1921 and 1926. It remitted funds for Government and advanced them ways-and-means loans when called upon to do so. It served as a bankers' bank, as most commercial banks kept their cash balances with it. It also managed the Clearing Houses in the country thus settling cross claims of banks.

As the Imperial Bank had to undertake banking business on behalf of the Government, its business was carefully regulated. For instance, it was not allowed to make loans for more than 6 months or upon the security of immovable property or its own stock and shares. It was also debarred from dealing in foreign exchange business except for the *bona-fide* personal needs of its clients. It could not lend money on personal security unless two independent persons or firms guaranteed the loan.

Constant complaints on the basis of unfair competition were made against the Bank. The presence of vast Government interest-free funds in its coffers was supposed to enable it to offer very low rates to the public and thus undercut other banks. Such charges were not wholly true because the Bank could attract large deposits at low rates of interest due to the high liquidity of its assets. It allowed no interest on current accounts.

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[1] It was required to open 100 new branches, 25 per cent being at places selected by the Government.

It was further asserted that the Bank discriminated against Indian firms and institutions in favour of Europeans. The major portion of its work, ever-increasing in volume, was, however, carried on with Indians.[1] That Indianization has not been as rapid as desired while the direction and management of its affairs has remained in European hands is a correct charge.

The most serious charge against the Imperial Bank was that it could not reduce the fluctuations in money rates in different places or seasons. This was due to the splitting of banking and currency operations between the Imperial Bank and the Government of India. Due to this reason the call money and bazar bill rates varied a great deal at Calcutta and Bombay. At the same time the bank rate varied between 4 and 7 in different years.

A commercial bank exists to earn profits. The commercial character of the Imperial Bank could not possibly co-exist and harmonize with its State bank character. It earned high dividends by its commercial operations; a true central bank would not have been allowed to do so, nor would it have entered in competition with ordinary joint-stock banks. Such operations are not conducive to efficient banking in a country.

It must, however, be said to its credit that it helped to spread banking facilities all over the country. It opened 75 branches in places where no bank had any branch before. It willingly helped some banks in difficulty, *e.g.*, Alliance Bank of Simla, the Bengal National Bank and the Allahabad Bank. It served the important purpose of a Clearing House at all places where it had branches, thus facilitating the settlement of cross accounts of different banks. The total number of branches of the Bank in 1945 was as many as 419. During the war years the number increased by 15.

The Imperial Bank of India Amendment Act of 1934 and After. With the coming into existence of the Reserve Bank in 1935 the Imperial Bank lost its status of a partial State Bank. Hence the old restrictions on its operations were removed. It could now freely deal in foreign exchange, open branches and borrow money outside India. It was also permitted to lend money against immovable property. Still the Imperial Bank has throughout been maintaining a higher ratio of cash to its deposits than the other Scheduled Banks which is one of the things giving it its premier position. At the end of March 1949 the total deposits of the Imperial Bank including the Reserve Fund and the Capital amounted to Rs. 281 crores, while its investments in Government and other authorized securities were Rs. 143 crores and its advances Rs. 125 crores. Against these it held cash amounting to over Rs. 40 crores. Thus, the percentage of cash to deposits came to 14%.

17. The defects in the Indian Money Market and the Need for a Central Banking Organization. The Indian money market was a loose conglomeration of banking units without any connecting links. The money-lender and the indigenous banker had nothing to do with the commercial banks. Co operative credit was a unit entirely apart from the money market in the country. The Exchange Banks, in addition to having a monopoly of the financing of the foreign trade, were "poaching" on the preserves of the joint-stock banks. The Imperial Bank derived immense benefit from its connection with the Government but was in no sense a Bankers' Bank. It competed with them and declared high dividends. In fact it was a case of each for himself and the devil take the hindmost. There was no cohesion in the banking system.

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[1] Muranjan—p. 92. Indians owned 6[illegible] per cent of the Imperial Bank's deposits and received 68 per cent of its advances in 1925.

The lack of a bill market in India made the smooth working of the credit mechanism impossible. There was a great deficiency of good bills in which the banks could invest surplus funds. Besides, *Bazar Hundis* were not well-grounded and were not uniform in character. They were rarely supported by proper documents like bills of sale and title. The Imperial Bank was not a co-ordinating but a competing unit; hence the joint stock banks were chary of re discounting bills with it. A large majority of the transactions in India were concerned with agricultural produce but agricultural bills were an impossibility without sufficient warehousing facilities. The complete lack of co-ordination of the money market combined with all these other factors worked against the development of a proper bill market.

Further, currency and banking in India were entirely divorced. The Government was responsible for the former. There was no automatic expansion or contraction of currency. The movement of crops from upcountry to the ports needed large funds in the harvest season. This created conditions of tight money not relieved by the Imperial Bank or the Government. The lack of elasticity in currency resulted in a wide disparity in the interest rates current in different parts of the year. The range of interest rates from place to place was also great The bazar bill rates at Calcutta and Bombay diverged widely.

In their capacity as currency authority the Government had to keep the foreign value of the rupee stable. Even their *bona fide* actions in this connection were looked at askance by the public and aroused criticism.

The credit side of banking was in no better case. Dr. L. C. Jain wrote in 1933: "The banking resources of the country are scattered with no mechanism for their mobilization."[1] The multiple system of reserves was not conducive to confidence and security.

The only mechanism that could remedy these defects in the credit and currency of the country was a Central Banking Agency, hence there was an urgent need for the creation of a Central Bank in India.

For a long time a controversy raged in the country whether India should have a State-owned bank or a private shareholders' bank. The main essential was that the new institution should be free from the incubus of party politics as well as the machinations of capitalists. It should be able to control both credit and currency efficiently. Nor should tall dividends be its main pursuit, otherwise it would commend no confidence in the banking world.

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[1] Dr. L. C. Jain—A Reserve Bank for India. p. 21.

After two abortive efforts in 1927 and 1928, the case for the establishment of a Central Bank was again brought to the forefront by the emphatic recommendations of the Central Banking Enquiry Committee. In 1934, a shareholders' bank was accordingly brought into existence by the Reserve Bank of India Act.

18. Constitution of the Reserve Bank of India. The Reserve Bank was started as a shareholders' bank with a share capital of Rs. 5 crores divided into shares of Rs. 100 each, all fully paid-up. The whole of the capital was owned by private shareholders except of the nominal value of Rs. 220,000 allotted to the Central Government.

The shares were distributed among five circles : Calcutta, Bombay, Delhi, Madras and Rangoon. The nominal value of the shares allotted to Calcutta was Rs. 1,45 lakhs, to Bombay Rs 1,40 lakhs, to Delhi Rs. 1,15 lakhs, to Madras Rs. 70 lakhs, and to Rangoon Rs. 30 lakhs No person could be allotted more than five shares in the beginning, nor could a company registered outside India have them. no person not domiciled or ordinarily resident in India was entitled to hold shares. It was later enacted (in 1940) that one person could not hold in his name or jointly with others shares in excess of a total nominal value of Rs. 20,000. Five shares gave the right of one vote and the maximum number of votes possessed by a shareholder was ten.

In spite of these efforts, however, the total number of shareholders went on steadily decreasing. As a result of the concentration of shares in fewer and fewer hands, a considerable amount of voting power became frozen, thereby reducing the democratic character of the Bank's constitution.

Management. The general direction of the affairs and business of the Bank was given to a Central Board consisting of (a) 16 members, namely, a Governor and two Deputy Governors appointed by the Central Government on the recommendations of the Board, (b) four directors nominated by the Government, (c) directors elected by shareholders, two each by those on the Bombay, Calcutta and Delhi registers, and one each by those on Madras and Rangoon and (d) one Government official nominated by Government.

For each of the five areas there is a Local Board consisting of (a) five members elected by the shareholders from amongst themselves and (b) three members nominated by the Central Board out of the list of shareholders. The nominations were meant to remove any deficiency left by the elections by giving representation to unrepresented areas and in particular to agricultural and co-operative interests in the country.

General Functions of the Reserve Bank. The Bank is authorized to transact the following business :—

(1) To accept money on deposit without interest from the Central and Provincial Governments, Indian States, banks, local bodies and any other person ;

(2) To purchase, sell and rediscount :—

(*a*) bills of exchange and promissory notes drawn and payable in India and arising out of *bona fide* transactions, bearing two or more good signatures, one of which must be that of a scheduled bank, and maturing within 90 days from the date of purchase or rediscount ;

(*b*) bills, etc., drawn and payable in India for financing seasonal agricultural operations or marketing of crops and maturing within 9 months from the date of purchase or rediscount, and

(*c*) bills issued or drawn for holding or trading in securities of the Government of India or Provincial Governments and maturing within 90 days.

(3) To purchase from and sell to scheduled banks sterling in amounts of not less than the value of Rs 1 lakh and bills of exchange (including treasury bills) drawn in or on any place in the U. K. and maturing within 90 days and to keep balances with banks in the U. K.

(4) To make loans and advances to States, local authorities, scheduled banks and provincial co-operative banks, repayable on demand or on the expiry of a period not exceeding 90 days against trustee securities, gold or silver, eligible bills of exchange and promissory notes of a Scheduled or Provincial Co-operative Bank supported by documents of title to goods pledged to the bank for commercial operations or for marketing of crops.

(5) to make ways-and-means advances to Central and local Governments repayable within 90 days ;

(6) to issue demand drafts payable at its own offices or agencies ;

(7) to purchase and sell Government securities of the U. K. maturing within 10 years of the date of purchase ;

(8) to purchase and sell securities of the Central and Provincial Governments in India of any maturity within certain maximum limits ;

(9) to borrow money for a period not exceeding 30 days from a scheduled bank in India or a Central Bank in any other country ;

(10) to open accounts with or to make agency agreements with central banks in other countries, to act as their agents and to invest funds in their shares ; and

(11) to perform all other functions usually performed by a

Central Bank in any country. *These functions are discussed in detail below.*

19. Central Banking Functions of the Bank. (*a*) *In the first place*, the Bank has the sole right to issue bank notes in India from 1935 and in Burma from 1937. For the issue of notes the Reserve Bank maintains a separate department called the Issue Department, the assets of which are kept distinct from those of the Banking Department. These assets consist of gold coin and bullion, sterling securities, rupee coin and rupee securities. Not less than 40 per cent of the total assets must consist of gold coin and bullion or sterling securities, provided that the gold is at no time less than Rs 40 crores in value at the rate of 8·47512 grains of fine gold per rupee which amounts to Rs. 21-3-8 per tola. Any deficiency in this form of assets has to be sanctioned by the Government and a specified penalty of not less than 6 per cent paid on it. During the war (1939-45) the Bank's holdings of sterling securities went on mounting as more expenditure was incurred by the Government of India on behalf of His Majesty's Government and other Allied Governments for which payments were made in sterling. From Rs. 39·50 crores on 1st September, 1939, the sterling holdings of the Bank rose to Rs. 1,034·33 crores on 31st August, 1945. The percentage of gold and sterling balances to total note issue which stood at 40·44 on 1st September, 1939, went up to 93·477 on 31st August, 1945. Of the gold coin and bullion not less than 85 per cent must be held in India.

Of the remaining 60 per cent. of the assets of the Issue Department the rupee securities shall not exceed 1/14th of the total assets or Rs 50 crores, whichever amount is greater. This proviso was amended by an ordinance issued in February, 1941, so that the existing limit on the amount of rupee securities held in the Issue Department was removed. Due to needs of war finances the Government had to seek far greater accommodation from the Reserve Bank against Treasury Bills. The rupee securities stood at over Rs. 174 crores in March, 1943, but fell to Rs. 58 crores (on August 31, 1945) while the sterling securities went up proportionately.

(*b*) *In the second place*, the Reserve Bank is required to regulate the banking system in the country. Every joint-stock bank that has a paid up capital and reserve of an aggregate value of not less than Rs 5 lakhs can be included in Schedule 2 of the Reserve Bank. Such a bank has to maintain with the Reserve Bank a minimum balance equal to 5 per cent of its demand and 2 per cent. of its time liabilities (on which no interest is admissible) and also to submit a weekly return of its position in a prescribed form. In 1948, there were 101 banks in the second schedule inclusive of the Imperial Bank and 151 Exchange Banks. The joint stock banks include what are sometimes styled the "Big Five" of India, namely, the Central Bank of India, the Bank of India, the Allahabad

Bank, the Bank of Baroda, and the Punjab National Bank each of which has deposits of more than Rs. 5 crores and a network of branches all over India. The maintenance of balances with the Reserve Bank by the commercial banks has centralized reserves in the country and brought about the inestimable benefit of comparative liquidity and safety.

The scheduled banks enjoy the facility of financial accommodation against approved securities. They can also rediscount with the Reserve Bank bills of exchange and promissory notes (*i*) which are drawn and payable in India, (*ii*) which bear two or more good signatures one of which must be that of a scheduled bank, and (*iii*) which have a fixed maturity not exceeding 96 days exclusive of the days of grace from the date of their purchase or rediscount by the Bank. Bills drawn or issued for the purpose of holding or trading in specified Government securities can also be rediscounted if they, too, mature within 90 days. An exception is made in favour of sound agricultural bills, so far as the period of maturity goes, which in this case is allowed to extend up to 9 months.

The Reserve Bank controls the credit policy of these member banks and through them of the other constituents of the Indian money market by raising or lowering its bank rate and by purchases or sales of Government securities or other bills in the open market. The latter process is known as Open Market Operations. A lower bank rate would encourage rediscounting of bills with the Reserve Bank, thus, increasing the cash with the joint-stock banks and *vice versa*. Similarly, purchases of securities by the Banks in the open market would increase the cash in the money market and their sales would have the reverse effect.

(*c*) *In the third place,* the Reserve Bank is entrusted with the task of maintaining the external value of the rupee at 1*s*. 6*d*. sterling. To do this it is obliged to sell to any person, who pays the price in rupees, sterling not less than £10,000 in amount, for immediate delivery in London at a rate not below 1*s*. 5-49/64*d*. for a rupee, and to buy sterling at a rate not higher than 1*s*. 6·3/16*d*. for a rupee. Moreover, it has to meet the Government requirements of sterling in London to do which it buys sterling from the scheduled banks by weekly tenders or at an intermediate tap rate. The Exchange Banks are enabled by this process to transfer their funds conveniently from London to India in the busy season.

(*d*) *In the fourth place,* the Reserve Bank has to perform the important function of carrying out the banking transactions of the Government which include the accepting and holding of moneys for the Secretary of State, the Central Government, the Provincial Government and approved native States *free of interest*. It has also to carry out their exchange and remittance operations and to manage the public debt on their behalf.

The remittance facilities provided by the Bank are a very important feature of its operations. The Bank maintains funds at all branches of the Imperial Bank and at Government Treasuries, 1,300 in number, to provide these facilities to the banks and public. These facilities were further extended and standardized in October 1940. Under the new scheme the concession rate of remittances was extended not only to the public and scheduled banks, but also to those 76 non-scheduled banks and 5 indigenous bankers who fulfilled prescribed conditions and are on the approved list. The rates for different classes of remittances are as follows :

Classes of Remittances	Up to Rs. 5000 Rate %	Minimum charge Rs.	A	P.	Over Rs 5000 Rate %	Minimum charge Rs.	A	P
1. Government Extra Provincial	1/16	0	4	0	1/32	3	2	0
Intra Provincial	Nil		Nil		Nil		Nil	
2. General Public	1/8	0	4	0	1/16	6	4	0
3. Scheduled Banks... ...	1/16	1	0	0	1/32	3	2	0
4. Approved non-scheduled banks and indigenous bankers ...	1/16	1	0	0	1/32	3	2	9
5 Co-operative banks and societies	1/16	0	4	0	1/32	3	2	0

In case of Telegraphic Transfers (T. Ts.) telegram charges are levied in addition.[1]

(e) *In the fifth place,* the Bank regulates the Clearing Houses for the scheduled banks and thus saves movements of cash from bank to bank. The most important clearing houses are at Bombay, Delhi, Madras, Rangoon, Lahore, Kanpur and Karachi besides 14 others. They are autonomous institutions and so far the Bank has not found it necessary to interfere with their working. The total value of cheques cleared during 1947-48 came to Rs. 84,80 crores as compared with Rs. 72,21 crores in the previous year.

(f) *In the sixth place,* the Reserve Bank has to tender advice to the Government and banks on financial and banking matters.

The Reserve Bank has an Agricultural Credit Department[2] with an expert staff, the functions of which are—(a) to study all questions of agricultural credit and to be available for consultation to all banks and (b) to co-ordinate the operations of the Bank in connection with agricultural credit and its relations with provincial co-operative banks and commercial banks engaged in this business. Thus its duties are mainly of an advisory character and it cannot render direct help.

Mr. M.L. Darling, I.C.S., was asked to enquire and report on the working and state of co-operative institutions in 1935. His report indicates the manner in which the Reserve Bank could render help in agricultural finance. Since then the Reserve Bank has issued a Statutory Report (in 1937) supplemented by a number of bulletins. They point out the difficulty of persuading the money-lender to shed off non-banking business and to adopt modern banking methods. They also suggest the reconstruction of the whole co-operative structure in the currency. "As for money-lenders supplanting them is not possible, regulation of their business by laws is suggested."[1]

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[1] For total amounts remitted to India in current years see Statement XXXV—Currency and Finance Report, 1947-48.

[2] See also Chapter XI, Sec. 9.

The Department has continued to study the problems connected with the co-operative movement, land mortgage banks, debt legislation, warehousing legislations, marketing and other cognate matters. The Chief Officer was sent to Ceylon to study the consumers' co-operative movement which was particularly successful there. Besides, a scheme for the establishment of an Agricultural Finance Corporation was submitted to the Government of India and is under consideration.

There is a feeling that the Reserve Bank has not done enough for agriculture in India. With the recent nationalization of the Bank it is expected this feeling will disappear and more hope for agricultural operations will be forthcoming.

The duty of the inspection of banks on their application to Government to be included in Schedule II of the Bank Act with a view to ascertaining the value of their paid-up capital and assets also devolves on the Reserve Bank.

(g) *In the seventh place,* the Reserve Bank has to manage the public debt of the Government of India and to float and pay off loans on behalf of the Provincial Governments India owed a total amount of Rs. 512·15 crores of sterling debt at the end of 1934. The outstanding total public debt of the Government of India is expected to amount to Rs. 20,49 crores at the end of 1949-50. Of this Rs. 37 crores is sterling debt, which also includes Rs. 13 crores of railway annuities Against this total debt, India holds Rs 15,28 crores of interest-yielding assets, the rest being unproductive. The management of the debt by the Bank has been very successful.

(h) *Lastly,* the Reserve Bank acts as agency for the collection and dissemination of financial information and statistics. It submits to the Central Government a weekly account of its Issue and Banking Departments. Besides, it compiles, prints and publishes monthly Statistical Tables relating to Banks in India and an annual report on currency and finance. The latest available balance-sheet of the Bank is given for careful study by the student.

20. Bank Rate. The Reserve Bank declares from time to time the standard rate at which it will rediscount bills of exchange or other eligible commercial paper. This rate has been 3 per cent since the inception of the bank and the war has had no effect on it. Conditions of easy money have prevailed.

Reserve Funds and Dividends The Reserve Bank is no dividend-hunting concern. The rate to be paid to the shareholders is limited by Section 47 of the Act. The Reserve Bank has paid only

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[1] Muranjan, op. cit., p. 283.

3-1/2 per cent dividend annually except in 1942-43 when it paid 4 per cent. The maximum rate of dividend that the Bank is authorized to give to its shareholders is 6 per cent. The balance of the surplus is to be paid to the Governor-General-in-Council provided that so long as the Reserve Fund is less than the share capital, not less than Rs. 50 lakhs of the surplus, or the whole of the surplus, if less than that amount, is allocated to the Reserve Fund.

Relations with the Imperial Bank. The Reserve Bank has entered into an argeement with the Imperial Bank which has been approved of by the Governor-General in-Council appointing the Imperial Bank as its sole agent for 15 years and thereafter, until terminated after 5 years' notice from either side, at all places in British India where the Imperial Bank had a branch in existence just before the opening of the Reserve Bank. The agreement would hold good if the Imperial Bank maintained a sound financial position and the existing number of branches, in return for which it was to receive Rs. 9 lakhs a year for the first 5 years, Rs 6 lakhs a year for the next five years and Rs. 4 lakhs a year for the last five. In addition, the Imperial Bank was entitled to receive a prescribed commission on the total transactions at the rate of 1/16 per cent for the first Rs. 250 crores and Rs. 1/32 per cent for the remainder for 10 years when the rates would be revised.

In 1945 accordingly the commission rates of the Imperial Bank were revised. A Government *communique* giving the new rates was published in June of that year. It says that "the following rates shall be adopted for calculating the commission payable to the Imperial Bank of India on the turn-over of Government for the quinquennium 1st April, 1945 to 31st March, 1950 :

On the first 150 crores ... ... at 1/16th of one per cent.

On the next 150 crores over 150 crores at 1/32nd of one per cent.

On the next 300 crores over 300 crores at 1/64th of one per cent.

On the remainder of the total of
receipts and disbursements dealt with
annually on account of Government
by the Imperial Bank on behalf of the
Reserve Bank of India ... ... at 1/128th of one per cent.

The revised rates of commission have been arrived at after expert investigation and are based on the actual cost to the Imperial Bank. The spirit of the contract is that no allowance for any profit should be made to the Imperial Bank when it will be receiving its fixed annual allotment of Rs. 4 lakhs during these five years as mentioned above.

This Agency Agreement with the Imperial Bank can be terminated if a five years' notice is given by either party in 1950.

The Imperial Bank was not permitted to open any branch in substitution for another in existence, without the previous approval of the Reserve Bank.

21. Achievements of the Reserve Bank. The policy of the Reserve Bank since its inception in 1935 has been generally directed on right lines and its achievements so far have been of no mean order.

(*a*) The bank rate which used to vary between 9 and 7 per cent before the creation of the Reserve Bank was brought down to 3 per cent. in 1935 and has been maintained at that level to the present day.

(*b*) The seasonal fluctuations in the money rates have been eliminated, while the variations in rates in different business centres have also tended to disappear. The main pressure of seasonal demand when the crops have to be moved down from upcountry falls on the Reserve Bank and it has been well taken. The interbank call money rate quoted by the larger banks has ranged between ¼ and ½ per cent.

(*c*) As discussed in detail above the Reserve Bank has introduced very cheap and valuable remittance facilities which have been availed of by the general public scheduled banks, Government and co-operative societies and banks widely.

(*d*) The Bank has achieved a remarkable measure of success in the management of the public debt. It has repatriated the whole of the sterling debt of India, funded the railway annuities and made ample provision for the payment of sterling pensions and furlough allowances in England. In addition, it has floated loans for the Central and Provincial Governments at low rates. It has also provided ways-and means expenditure through Treasury Bills for the Central Government.

PUBLIC DEBT OF INDIA SINCE 1913 14

(In crores of rupees)

Year	Sterling Debt	Rupee Debt[1]	Treasury Bills outstanding.
1914 ...	266	180	..
1939 ...	465	485	46
1949[2] ...	40	1991	369

(*e*) The Bank has kept the exchange value of the rupee stable at 1s. 6d. in spite of very trying times. It has done valuable work to improve and develop rural credit in India and maintains a special department to render expert advice to Governments regarding co-operative credit.

(*f*) As a banker's Bank, it has at last succeeded in piloting an excellent piece of legislation which at least gives it wide powers to regulate and control operations of scheduled and non scheduled banks in the country. In the meantime it has successfully tackled the manifold problems of war finance such as the floatation of numerous loans, the repatriation of sterling debt and the administration of exchange control

(*g*) The Bank has done a good deal of research and has a department staffed by competent economists and statisticians whose work is proving useful to the country. The Bank is organizing a separate

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[1] It includes Post Office debt, Treasury bills, etc.

[2] Explanatory memorandum of the Budget for 1949-50.

Balance of Payments Division. It has also suggested to Government the compilation and interpretation of statistics of national income which are an important indicator of economic activity in the country.

(*h*) It has played a very important part in organizing the Industrial Finance Corporation as an agency for providing long-term finance to industry.

Where the Bank has failed. To be of real value, the Central Bank of a primarily agricultural country like India, should thoroughly organize agricultural credit. The Agricultural Department has no doubt been functioning, but its activities leave much to be desired. The relations of the Australian Commonwealth Bank and the Reserve Bank of New Zealand with the primary industries of those countries are worthy of its study and should prove inspiring examples.

The constitution of the Reserve Bank has been exploited to the limit during the war years of 1939-1945. It has been legally possible to recognize sterling securities without limit as cover for the expansion of currency.

The Reserve Bank has not yet been able to forge a link with the indigenous bankers so as to bear fruitful results nor has it provided enough credit facilities to the scheduled banks to avert crises. It has also not succeeded in creating a bill market big enough to enable banks to invest their surplus funds profitably. Nor has the Bank so far succeeded in the matter of securing for Indian joint-stock banks their due share in foreign exchange business. With a free India the opening of an Exchange Bank should be given priority.

The Reserve Bank has not succeeded in keeping stable the internal value of the currency unit. This is admittedly an important function of a central bank. The reason for the failure of the bank in this direction is that the Indian money market is not one organism. Besides India was not a free country and the policy of the Bank was dictated in British interests. Thus while the U.K. avoided inflation and higher prices, we supplied goods and were saddled with sterling assets. The Bank was helpless.

In spite of these lacunae, however, it has ushered in a new era of financial stability and banking reform and has helped joint-stock banking in India to weather successfully one of the severest storms in history—the war period of 1939-45. It can also be affirmed that its service potential is immense and one can look for great achievements from it in the future

22. Nationalization of the Reserve Bank. The Reserve Bank (Transfer to Public Ownership) Act, 1948. By this Act the Reserve Bank of India was nationalized on the 3rd of September, 1948, and passed into State ownership. The Bank was nationalized to ensure a greater co-ordination of the monetary, economic and financial policies. Under this Act—

(i) all shares of the Bank held by members of the public have been acquired by paying compensation at the rate of Rs. 118/10 per share.

(ii) The constitution of the Central and Local Boards has been amended so that all the directors are to be nominated by the Government. Of these one is a Government official, four represent the four Local Boards and six represent other interests. The Local Boards will consist of three members each and will be appointed by the Central Government.

(iii) Amendments have been made in the Reserve Bank of India Act of 1934 to enable the Reserve Bank to hold in its Issue and Banking Departments not only sterling and sterling securities as at present, but also foreign currency and other securities of a foreign country which is a member of the International Monetary Find. This amendment has become necessary in view of India's membership of the I M F and the obligation laid on the Reserve Bank to buy and sell all foreign currencies at prescribed rates.

This act of nationalization has been criticized on the grounds that the Government is assuming complete powers for directing the policy of the Bank and this will result in the Bank having to obey the behests of whichever party comes to power at the Centre. On the other hand it is claimed that large-scale planning, on which the Government of India is embarking, is not possible without a national institution of this kind. Besides, prominent countries like Canada, Australia, Britain, and France have taken their Central Banks into State ownership.

The new regime came into force on 1st January, 1949.

The Government have accepted the policy of nationalization of the Imperial Bank of India, Ltd., too. But since it has a large number of branches outside India, various technical problems connected with such a step crop up. Therefore, for the time being it has been postponed. The Government promised that compensation would be paid to the shareholders on a similar basis as laid down for the Reserve Bank. The Government gave a categorical assurance that there was no intention to nationalize other commercial banks.

23. Savings, Investment and Hoarding. After attaining freedom India has decided to have a planned economy. Strenuous efforts are being made to speed up the process of production. Capital is being borrowed from abroad to purchase machinery, equipment and technical 'know-how'. It is, therefore, all the more essential that all saving resources in the country, however humble they may be, should be tapped as far as possible. In view of the fact that there is so much individualistic economy in our agriculture it is not easy to organize savings satisfactorily and collect them at one place. At the same time it is urgent that we should have at least an approximate idea of our savings and what is known as hoarded wealth and what steps are necessary to mobilize it. It has been estimated that these mass savings run into crores of rupees but means have to be created by which these savings can be put into the hands of the State.

Savings depend on the difference between total production and total consumption in a country. Unfortunately the power to save is poor in India. The majority of zamindars till uneconomic holdings and find it hard to make both ends meet, leave aside saving and investing. The few who are lucky enough to be outside the pale of a deficit economy are improvident and save little for the rainy day. Whatever little is, however, saved in the villages is converted into silver and gold ornaments, for, either there are no banks in the vicinity to attract savings or the villager has not enough confidence to entrust his savings to a bank.

Considering that India's teeming millions run up to 1/5th of the population of the world, and that during the last four centuries and a half India has absorbed less than 1/7th of the total output of gold[1], the charge that India is a sink for precious metals falls to the ground. India absorbs precious metals for art purposes, so do Europe and America, who consumed no less than 30 per cent. of the total gold output during the time that India absorbed a bare 14 per cent. according to the above quoted authority.

Hoarding was inevitable when life and property were not safe in India. Social conditions (like the dowry system) also encouraged it. Circumstances are, however, changing and things in this direction have considerably improved. These are no arguments for complacency. Efforts should be made to provide opportunities for saving and investment and to discourage hoarding. The following steps might be helpful in this direction:

(1) The Central Banking Committee was convinced that there was not much hoarding in India, but at the same time stressed the need for extension of deposit banking. Branches should be opened in places where no banking facilities exist rather than in big towns where a large number of banks are already represented. The man in the village has to be reached and his savings collected.

(2) Post offices should supply enhanced facilities to the small man. A more liberal rate of interest should be offered to tempt him to deposit his meagre savings.[2] If the facility of withdrawing money by cheques written in Indian languages could be provided, it would not only make the post office banks more convenient but would also provide a fine incentive for literacy.

(3) A more active and intensive propaganda should be carried on to increase the number of women's co-operative societies in the villages. This would tap a source but little exploited so far. Indian women are naturally thrifty. The inculcation of the habit of investment among them would more surely work towards discouraging hoarding in India than anything else. Joint-stock banks should open special departments for women which should be in the charge of lady assistants. Such a step would promote business habits among women

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[1] Mr Joseph Kitchen in evidence before the Royal Commission on Indian Currency and Finance in 1926.

[2] This has been done recently, the rate being raised from 1½ per cent to 1¾ per cent.

and induce them to invest their money in the banks rather than ornaments.

(4) Education is the soundest remedy against all traditional uneconomic habits. The present system of education needs a thorough overhaul. A knowledge of elementary economics imparted in the local languages at the matriculation stage would also help matters. Lectures arranged under the auspices of Bankers' Institutes and Chambers of Commerce in different parts of the country and pamphlets would also be of use.

24. The International Bank for Reconstruction and Development. The world war is over. The need for rehabilitation is perhaps more desperate today than in any previous period of history. Political measures alone will not solve the problem unless accompanied by measures of economic reconstruction. The need for these measures has been recognized by the holding of the Bretton Woods Conference (1944) and the creation of the International Monetary Fund and the International Bank.

The Bank is meant to be the major instrument in the restoration of the economies of war-devastated nations and in the development of economically backward areas. Thus, it will create a basis for a durable peace. It will grant loans of long maturity to member nations with the object of (*a*) reconstructing economies destroyed by war and (*b*) encouraging the development of productive facilities and resources in less developed countries. It will thus assist in bringing about a smooth transition from a war-time to a peace-time economy, as well as help "in raising productivity and the standard of living and conditions of labour in the territories of the member nations." It will naturally give priority to credits for reconstruction for economies that have suffered great devastation from enemy action and occupation, but that does not mean that projects for development of backward areas, will not receive equitable consideration. Besides, the final settlement of the huge lend-lease and reverse lend-lease accounts and the problem of the maintenance of equilibrium in the balance of accounts payments would also need long-term international loans. For these and of the equally important purposes of re-establishing world commercial relations on a stable multilateral basis the creation of an International Bank was urgently necessary.

The total amount to be subscribed to the Bank by its present members is $ 7,670 million ; of this only 10% was called up in 1946. Each nation was required to pay 3% of the initial demand in its national currency, and the rest in U. S. dollars or gold. India's total quota comes to $400 million. The quotas of some other countries are : the U. S. A. $ 2435 million, the U. K. $ 1000 million, China $600 million, France $ 450 million and so forth. India's initial contribution made by November 1946 came to $ 40 million payable $ 7,960,000 in gold or U. S. A. currency, $ 12 million gold and $ 20 million in Indian currency. It was thought that it would be beneficial if India secured the advantage of original membership of the

International Monetary Fund and of the International Bank. Hence the Legislative Assembly having been dissolved in December 1945, the Government of India promulgated an Ordinance to join the Bank. Mr. Sundrasan, Joint Secretary, Finance Department of the Government of India, was appointed as India's representative on the Bank.

The Bank is to be a source of mutual assistance. It has enough cash funds and reserve to meet interest and a mortization on dollar obligations for a number of years. If a depression is protracted the Bank may call on its subscribers for the rest of the capital not originally called. The U.S.A.'s share alone comes to an additional $ 2500 million.

The Bank with all its resources will assist member nations in utilizing their available resources—raw materials, transport facilities, fuel, power, plant, idle manpower, existing technical and managerial skills—so as to restore pre war output levels. Its development credits are mainly meant for the under-developed areas of the globe—mostly Asia, Africa and Latin-America—to create productive facilities where they did not exist before or else to expand existing ones.

The I.B.R.D. has been busy giving loans for long periods to various countries needing capital for development purposes during 1948. For instance it advanced loans totalling $ 34·1 million for electric power development in Mexico. The new hydro and thermal electric projects will increase Mexican industrial and agricultural production and help to raise the standard of living of the people.

Its first and biggest loan of $250 million was to France. The next lot of loans aggregating 263 million was for the Netherlands, Denmark, Luxemburg and Chile. They are to be repaid gradually over periods varying from 6½ to 30 years and bear rates of interest up to 4½ percent including 1% commission to be credited into the Bank's special reserve.

It also made a loan of $12 million to four Dutch shipping companies. Mr. S.G. Hoar, the Vice-President of the Bank, came over to India early in 1949 to investigate into the genuineness of India's application for a heavy loan for purchase of plant and equipment for her many multi-purpose projects and improvement of transport. It is expected that a loan will soon be made available to India as well.

Mr. Hoar, while in India, explained the principles on which the Bank acted. The Bank has to deal with the most useful and urgent projects first, and it has to be satisfied that the borrower would be unable to obtain loans elsewhere on reasonable terms and that it would be in a position to meet its obligations.

Almost all the loans are in dollars as the goods needed to be purchased with the borrowed money are available in the U.S.A.

Soundness of a project is an essential test before the Bank will agree to finance it. It is in the interest of the borrowing country to get the proposed projects passed by the objective eye of the Bank, otherwise sentiment and politics may pull towards seductive short-cuts which may not be always wise.

Before the Bank advances a loan, it conducts thorough investigations, not only of the individual project concerned, but of the economic and financial condition of the country itself. It is not content with the documentary evidence but sends out missions to investigate the problems at first hand. The Bank is not prepared to lend unless it is satisfied (*a*) that the overall economy of the borrowing country was soundly operated and that both policy and practice gave grounds for confidence that satisfactory conditions would be created at an early date, if the country was passing through some difficulties ; (*b*) that the overall plans for reconstructing or developing economy were conceived and were being worked out on lines which would reinforce and not upset the basic soundness of economy ; (*c*) that the project or projects within the larger programme which the Bank was asked to finance had been meticulously prepared technically and were financially and conomically justified.

It is of primary importance, therefore, that a developing country keeps a constantly critical eye on the soundness of its budget structure on the existence of a healthy and stable relationship between wages and prices ; on the effective utilization of its available resources of materials, transport and power ; on the flow of goods within its borders and the volume and character of exports and imports passing across them ; on the development of its balance of payments ; and on all the diverse aspects of national life which reflect the health of its economy.

But Mr. Hoar assured that the Bank was not so unrealistic as to expect to find perfection, but what it does expect to find is a realistic appraisal of facts and a determined and intelligent policy to move steadily forward to set right those features which are hindering the healthy evolution of its economy.

Mr. Hoar suggested that no commitment should be entered into for any project until (1) it has been proved to fit into the general pattern of sound development ; (2) it has been proved to be necessary ; (3) it has been proved feasible ; (4) it has been proved capable of doing the job within the time-limits within which results are essential and more satisfactorily than any alternative ; (5) it has been related to other competing and complementary projects ; and (6) a balance has been struck and evaluated as to the benefits of employing competent consultants, contractors and engineers.

The development projects that India has in hand have been examined by the mission sent out by the International Bank, and it is expected that a loan will be shortly sanctioned.

The International Monetary Fund and the International Bank are two independent institutions. The Fund makes advances for short terms to meet temporary disequilibria in the balance of payments. The International Bank, on the other hand, lends money on a long-term basis either for particular projects or generally for the reconstruction and development of a member country's economy.

The amount of the loans that the Bank might grant to a particular country was not governed by its share capital in the Bank.

Further Readings Suggested

1. Dadachanji—Monetary System of India.
2. Muranjan—Modern Banking in India.
3. Panandikar—Banking in India.
4. Sovkar—Joint Stock Banking in India.
5. Sharma—The Indian Money Market.
6. Raj—The Monetary Policy of the Reserve Bank of India.
7. Mitra—Post-War Banking in India.
8. N.P.C.'s Volume on Banking.
9. Jain—Indigenous Banking in India.
10. Keynes—Indian Currency and Finance.
11. Report on Finance and Currency for 1947-48.
12. Report of the Central Banking Committee.
13. Reserve Bank of India Bulletin.
14. Commerce (weekly journal).
15. Report of the Central Board of Directors of the Reserve Bank for 1947-48.

CHAPTER XXVII

PRICES IN INDIA

1. Importance and Complexity of the Price Problem Price study is always a very complex problem. It is much more so in India due to its huge size and the great differences in the standards of living of its people. Even the Bombay and Calcutta price index numbers vary considerably. Only recently an up-to-date all-India Index Number has been started by the Economic Adviser to the Government of India.

The study of prices is very important from many points of view. They point out the prosperity of a community. They enable the Government to assess land revenue and slide it up and down. They reflect the expansion or contraction of currency and mould Government control policy.

2. A historical review of prices. —*Pre-Mutiny Time.* Before and the construction of roads and railways in India prices were ruled by custom. There were severe fluctuations from year to year and place to place. As movements of commodities were difficult and costly, conditions of local production controlled prices. There might be plenty in one district while famine raged in an adjoining one.

Prices from to 1860 to 1893. After the introduction of railways roads the isolation of the Indian village was gradually broken. Custom and status prevailed in the rural areas while competition and contract ruled the big towns. India came in contact with the world through international trade and world factors began to influence Indian prices which rose slowly and the index number was 105 compared to 100 in 1873, the base year.

1893-1913. Rapid rise in prices : The Datta Price Enquiry Committee (1910). The slow rise in prices in the last decennium gathered pace now. Previously prices of foodstuffs had been high in famine years but had fallen in years of good monsoons. Now they rose steadily without a fall and "there were famine prices, without a famine." Mr. Gokhale drew the attention of the Government to these abnormal conditions and attributed the rise in prices to the heavy coinage of rupees. Such a sudden inflation was bound to result in a general rise in prices. The Government, therefore, appointed Mr. K. L. Datta to make an enquiry into the causes of this abnormal rise in prices. The Committee reported in 1914 and inferred that the rise in prices was due to (*a*) general world conditions and (*b*) causes peculiar to India.

Mr. Datta compared the rise in prices in India with that in some other countries and found that the rise was higher in India than elsewhere.

The rise in prices in the world was due to (*i*) shortage in the supply of agricultural commodities with an increased demand for them, (*ii*) increased supply of gold and currency, (*iii*) development of banking and credit facilities, and (*iv*) destructive wars like the Russo-Japanese and the Boer Wars.

But the higher rise in prices in India, according to Mr. Datta, could be ascribed to certain special causes such as (*i*) decrease in production of food grains, which the committee thought was due to untimely rains, substitution of non-food for food crops and inferior land being brought under cultivation ;

(*ii*) an increased demand for staple commodities due to increase in population and improvement in standards ;

(*iii*) development in the means of transport, both railways and steamships, and a fall in freights ;

(*iv*) expansion of credit and banking. The Government did not agree with the view that the rise in prices was due to internal causes. They asserted that canal-irrigated area had practically doubled itself during these years ; therefore there could be no shortage in food crops. They ascribed the rise in prices to world factors and increased credit

As a matter of fact the rupee became a token coin in 1893. It was no more melted. In addition, the Government went on coining rupees freely. The total net addition of new coinage came to Rs. 100 crores from 1900 to 1908, and this was the main cause of the rise in prices—the quantity theory of money proving itself.

The World War, 1914 19 : Heavy rise in prices. Prices rose to unprecedented heights during the war years. The rise in prices during the war may be ascribed to the following reasons :—

(*a*) *Increase in currency.* The notes in circulation in India amounted to Rs. 237 crores in 1914, Rs 265 crores in 1916 and Rs. 362 crores in 1919. The Government having a monopoly of note-issue financed their war needs by "artificial creation of purchasing power" and "watering the paper currency".[1] The increase in currency was also due to the issue of Treasury Bills and war loans on the basis of which banks gave credit to customers.

(*b*) *Decrease in imports.* Imports of manufactures could not be maintained at the pre-war level. The destruction caused by war and the switching off of labour to the production of armaments made that impossible.

(*c*) *Increase in insurance and freight rates and insecurity on the sea.*

(*d*) *Restrictions and controls over imports and exports* laid by Government.

The failure of rains in 1918-1919 and 1919-1920 accentuated rise in prices which reached their highest level in 1920.

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1. Jathar and Beri : Indian Economics, Vol. II, p. 395,

Prices from 1920 to 1929. Downward Trend. The world boom in prices was followed by the inevitable downward trend, which was further helped by the policy of "Deflation" adopted by all countries including India. Prices in India, the U. K., the U.S.A. and other countries moved downwards more or less parallel to each other but not very rapidly.

Prices from 1929 to 1939. Great Depression of 1929-33. There was a collapse in Wall Street, in New York, in 1929 which set the ball rolling towards a slide in prices. The monetary and non-monetary causes of the slump in trade and the fall in prices have already been discussed.[1] India was in a more difficult position. Her currency was tied to the apron strings of the U. K. at the fixed rate of 1s. 6d. to the rupee. A 1s: 4d. ratio would have given India 12½ per cent. advantage in prices and exports. In spite of a strong public opinion, the Government was adamant and stuck to the 1s. 6d. ratio. The political disturbances in the country also worked against stability. India was an agricultural country and she suffered more because the prices of agricultural commodities fell more than those of manufactured goods. In 1931 prices actually fell below the 1914 level till they were lowest in 1934 when they were 87 against 100 in 1913. Prices in manufacturing countries like the U.K. and the U.S. A. did not fall so low ; there they did not fall below 103.

Effect of the fall in prices. Steep changes in prices are always attended with great evils. They cause great social injustice, upset contracts and bring about panic. The fall in prices made the position of the agriculturist in India extremely difficult. He forms the large majority of the population. If he is unhappy the whole country is unhappy. During the depression his income fell, but the land revenue and irrigation charges he had to pay were the same. Land rents also, being on a contract basis did not fall. The interest on money borrowed by him in the past could not change. Hence he could not meet his obligations and his position grew steadily worse. In this respect the big zamindar was no better off than his poor neighbour.

The trader found that he could not sell goods at a profit. His turnover slackened as there was no customer for his goods. This, in turn, affected the manufacturer whose stock accumulated in the godowns and could not be disposed of at a profit.

The fixed salaried class alone prospered but they form a very small proportion of the total population.

Customs and excise duties, income-tax and railway earnings all fell off, putting the Government in a most difficult situation. Taxes were increased all round and cuts levied on salaries. Exports decreased and home charges could not be met. The exodus of gold from the country came to the rescue of the foreign exchange and saved the credit of the Government abroad.

After 1934 prices started improving, except during 1937-38 when there was a recession in prices and there was a set-back again. The world along with India finally recovered in 1939 with the onfall of the Second World War.

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[1] See chapter on India's Trade.

3. Prices during the war period. Just after the declaration of war, prices of both primary and manufactured goods soared up. This was mainly due to the speculative activities of the "bulls" on the exchanges, for there was as yet no shortage in commodities. Things settled down after some time and the soaring prices tended to fall. Fifteen months after the declaration of war, in the end of 1940, prices were actually lower than in December, 1939.

With the advent of 1941, prices were once again on the upgrade. The United Kingdom had now stepped into the Indian market for the purchase of goods. Her purchases, on the one side, increased the currency in India, and, on the other, reduced the quantity of goods available and this naturally raised prices.

December, 1941, saw Japan on the side of the Axis. This brought the war close to the shores of India. In 1942, there was a heavy increase in the prices of all kinds of goods. By the middle of 1942, prices were intolerably high. Things were yet to grow worse, however, and in 1943 prices rocketed sky-high, bringing untold suffering and misery to the poorer classes in India.

Calcutta was the worst sufferer in this respect, being nearest to the field of battle. Bombay tendencies were also the same though the rise was not so great. One interesting thing was that in World War II prices of manufactured goods did not shoot ahead of primary commodities as they did in World War I.

In the beginning, the Government of India made no efforts whatsoever to check prices. In fact they did not think it proper to do so. They thought that both agriculturists and manufacturers had suffered greatly by the fall in prices during the slump years. Later in 1943 when the ruling prices were very high and conditions of inflation had established themselves the Government were compelled to put in efforts to control prices. By this time the food resources of Burma were lost to India. The food situation worsened and Bengal was struck down by a famine, " which stands out as a great calamity even in an age too familiar in human suffering and death on a tragic scale. Famine on a catastrophic scale had indeed faded from memory and was regarded by many (in India) as a thing of the past. In 1943 an enemy generally thought to have been finally vanquished reappeared in full strength and its victims thronged in their thousands the streets of the greatest city in India, Calcutta."[1] Hundreds of thousands died of the accompanying epidemics of malaria, small-pox and cholera. But " only one section of the community suffered from starvation—the poorer classes in the rural areas."[2] As the prices rose higher the poor who had scanty reserves found themselves unable to purchase food grains.

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1 & 2. Woodhead—Famine Inquiry Commission Reports on Bengal, Vol, 1.

Gradually a long series of remedies and control measures discussed below were adopted by the Government of India to check the steep rise in prices, to regulate distribution and to reduce purchasing power by attracting idle money into Government loans. At long last the measures took effect and prices were checked in mid-flight.

TABLE I

Index No. of wholesale prices.

(Base—Week ended August 19, 1939=100.)

Year.	Agricultural commodities.	Raw materials.	Primary commodities.	Manufactured articles.	General index
1939-40	127·5	118·8	124·2	131·5	125·6
1940-41	108·6	120·5	113·4	119·8	114·8
1941-42	124·2	146·9	132·5	154·5	137·0
1942-43	166·2	165·9	166·0	190·4	171·0
1943-44	268·4	185·0	232·5	251·7	236·5
1944-45	265·4	206·0	240·5	258·3	244·2
1945-46	272·8	210·1	246·4	240·0	245·0
1946-47	314	235	280	259	275
1947-48	357	254	313	288	307

The measures put into effect by the Government to achieve this comparative stability of prices after 1942-43 may be rapidly summed up as speeding up and collection of taxes, collection of the Excess Profits Tax (E. P. T.) on a quarterly instead of a yearly basis, and sale of gold by the Reserve Bank of India on behalf of some of the Allied countries. The Cotton Cloth and Yarn Control Order, the Hoarding and Profiteering Prevention Ordinance, the loan programme of the Central and Provincial Governments and the Small Savings campaign in rural India also worked in the same direction. Local manufacturers were encouraged, import licences granted on a more liberal scale and more goods were released for civilian consumption. Food grains were imported into Bengal from Australia and from surplus provinces like the Punjab on a priority basis and reserves built up Rationing of food, cloth, sugar, etc., was introduced in the big cities and towns of India. In fact everything that could possibly be done to control prices and distribute goods rationally was done from 1943 onwards, but after the harm had been done in Bengal.

At last in the closing months of 1943 the corner was turned and the rapid flight of prices was checked for the time being. The all-India working class cost of living indices for some selected places like Bombay, Kanpur, Lahore, etc , also showed the same tendency.

The end of the war in August 1945, however, did not relieve the strain on India's economy. Capital goods in India had been overworked and replacements were not available from abroad. There was great shortage of food grains and consumer goods, particularly textiles. Labour costs were still swinging upwards. Hence wholesale prices did not register a fall, but showed an increase as is evident from the figures in Table I on page 476.

When we compare the trend of prices in India during war and post-war years with prices in foreign countries we are at once struck with the great disparity. We see that India suffered the most of all in that the prices here reached the highest levels. It is a well-known fact that prices depend on the number of goods on sale and the quantity of money available. A comparative study of money-supply and prices tells us that the former increased in all countries, *e.g.*, the U. K., the U.S.A. and Canada, but the greatest increase in prices occurred in India.

The cause of the higher rise in prices in India was the huge purchase of goods made in India by the Allied Powers to prosecute the war. These purchases vastly increased in value in 1943 and resulted in unprecedented inflation. The millions in India went hungry and naked to supply the war front and got nothing but promises of future payment in the shape of sterling securities. There were huge increases in note circulation and demand deposits in other countries too, but the rise in prices was kept down by controls and rationing of essential goods. Indian controls were not so efficient, therefore the rise in prices was greater in India than in other countries. The artificial factors engendered by the war have not disappeared yet. Adjustments expected to operate automatically, when the war was over, have not done so. There is still a great dearth of consumer goods and food grains in India. In spite of trade conferences, trade barriers have not yet wholly disappeared nor have the defeated Axis countries and the war-devastated Allied countries yet been rehabilitated.

Just after the war was over, there was an improvement in the overall supply position. There were larger imports of consumer's goods from the U.K. There was a gradual repatriation of foreign troops which reduced the demand of the Defence Services on Indian goods. Besides, some raw materials, stores and machinery for the manufactured goods were imported from abroad. Prices should have fallen, but supply of money went on increasing. Hence in spite of relief in these directions, prices could be just maintained at the previous year's level. The Economic Adviser's index number of wholesale prices averaged 245 in 1945-46 as against 244 in 1944-45.

There was a rising trend in the general level of prices in 1946-47, which gathered momentum in 1947-48 reaching the very high figure of 307 at the end of 1948. This situation was the outcome of the following economic forces :—

(*a*) Money supply spurted up. Thus the notes in circulation which amounted to Rs. 11,63 crores at the end of 1946 increased to Rs. 12,83 crores at the end of 1948. This increase resulted in a heavy increase of advances by scheduled banks, which rose from Rs. 285 crores to Rs. 427 crores during the same period of time. The increased supply of money created inflationary conditions and pressed against limited supplies of goods resulting in soaring prices.

(*b*) Although the war was over, Government revenue and capital budgets, especially the latter, had big deficits. They contributed to the rise in prices.

(*c*) On top of these there was an overall decline in agricultural and industrial production. Estimated production of food grains in the Indian Union including Hyderabad, which had averaged 43 million tons from 1942 to 1946 dropped to 40 million tons in 1947 and was no better than 41 million tons in 1948. This decline becomes all the more interesting by the side of a population increasing at the rate of about 50 lakhs a year.

At the same time, the output of major industries, such as jute manufactures, cotton textiles, cement, paper, matches and chemicals, indicated a fall in 1947-48 as compared with the previous year. This decline was due to the inadequacy of raw materials and capital equipment, bottlenecks in transport and civil disturbances. Industrial unrest, which affected almost every industry in the country, aggravated the trouble. The number of working days lost due to these disputes was no less than 16·6 million man-days in 1947 and 8 million in 1948.

(*d*) During 1948, India's balance of trade grew steadily unfavourable, specially against hard currency areas, due to heavy imports of foodstuffs. To fill up the gap in India's foreign exchange payments, restrictions on imports of consumer goods were necessitated. To make matters worse, salaries had to be increased and dearness allowances paid to meet the higher cost of living. This increased the purchasing power in the hands of the people and further stimulated inflation.

(*e*) At the end of 1947 the Government decontrolled various commodities like food grains, pulses, sugar, cotton cloth and yarn thinking that hoarded commodities would come out, but this measure added to the already high inflationary pressure on the economy and resulted in a further rise in prices.

The Economic Adviser's index number of wholesale prices (General Purpose Series) which had stood at 293 in March 1947, went up to 341 in March, 1948. It attained a maximum height of 390 in July, 1948. The Government had realized that it was a mistake on their part to decontrol and de-ration food and cloth. They started taking steps to re-impose controls. Thereafter prices gradually started falling till they reached the level of 370 in March, 1949.

4. Causes of abnormal rise in Prices.—*Pre-war years.* Fluctuation in prices are brought about by many causes working together. One cause cannot be singled out and held wholly responsible for the present rise in prices. We shall study all the causes, monetary and non-monetary, one by one.

(a) Inflation. Inflation has been defined by a recent writer "to consist in an enormous rise in the circulation of currency or legal tender, particularly paper money, backed purely by Government securities, created generally to meet current budget deficit." Fresh notes are issued without being needed for business or trade. This condition was present during war years. The expansion in notes in India during war years was the direct result of purchase of materials and services made by the British Government either for itself or on behalf of Allied countries. The British were so preoccupied with producing war requirements that they were not able to pay back India in commodities -hence the accumulation of vast sterling assets to the credit of India in London. These assets helped to cover British budget deficits and worked towards keeping down British prices.

After the war was over, the sterling assets could not be released in sufficient amount to buy machinery and plant needed by India from dollar countries. Thus there was no fall in money supply. The disturbances in Kashmir and Hyderabad resulted in added expenditure and aggravated the trouble which took such an acute form in 1948 that the Government were constrained to call in for consultation various individuals and groups competent to advise in the matter. The findings of the independent economists were the least prejudiced and deserve consideration. They ascribed the present inflationary tendencies to the following causes :—

(i) *Continuous increase in Currency.* In 1949, the total value of notes circulating in India came to Rs. 11,91 crores against Rs. 179 crores in 1939. In addition, total value of advances and bills discounted by scheduled banks was Rs. 444 crores against Rs. 126 crores in 1939. The general price index in March, 1949, reached the high level of 370 against 100 in August, 1939.

(ii) Continued budget deficits during war years and after at the Centre and most provinces.

(iii) Sudden ill-advised removal of controls on prices and distribution of goods.

(iv) Increase in active money due to conversion of capital into cash as a result of migration of population from Pakistan.

(v) Additions to money supply as a result of support given by the Reserve Bank to Government Securities.

(vi) Pressure on money made in the black market and of incomes trying to evade taxes.

(vii) Failure of Government borrowing and savings campaigns.

(viii) Increase in salaries and dearness allowances.

(b) Scarcity of goods. All kinds of consumer goods, both imported and locally manufactured, are in short supply.

(i) *Shortage of food supply in India.* India has not been self-sufficient in her food supply for some years. She was importing 1½ to 2½ million tons of rice from Burma, Malaya and Thailand.[1] The occupation of these countries by Japan created a big gap in India's food supply. Besides this loss, there was a decrease in the production of food grains in India itself.

In spite of this net gap in India's average food supply, she had to export food grains to Iraq, the Bahreins, Ceylon and South Africa,[2] thus enlarging the deficit in food in Bengal and Bombay, and creating famine conditions there. This deficiency has since been aggravated due to the partition of the country due to which the canal colonies in the Punjab and Sind went over to Pakistan.

(ii) *Shortage of imported manufactured goods.* There was a great fall in the value of India's sea-borne trade in the third full fiscal year of the war. This fall was greater in respect of her imports. The following comparative indices for the quantum and price level of imports from 1940 to 1943 are interesting.

TABLE II[3]

Quantum of Imports

(Base : 1938-39=100)

		1940-41	1941-42	1942-43
Quantum of imports	...	81·3	74·2	37 6
Decrease per cent	...	—20·3	—8 3	—49·3
Price level	...	126·7	153 4	192·9

The figures show that imports of foreign commodities fell down to 37·6% as compared with the base year 1938-39. This extreme fall accentuated the problem and made consumer goods still more scarce.

(iii) *Shortage of goods manufactured in India.* A very large portion of production in India was diverted to war purposes. Steel, paper, textiles, leather goods, rubber and tea were being purchased in huge quantities either by the U. K. C. C.[4] or through other agencies for British, American and Allied needs, leaving but little for the use of Indians. An idea of the huge foreign purchases can be had from the sterling assets to the credit of India.

	Crores of Rupees
1. Sterling assets held by the Reserve Bank, August 1939	64
2. Sterling purchased by the Reserve Bank to end of March 1945	644
3. Sterling payments made by His Majesty's Government	1,292
Total Rs.	2,000

(c) *Speculation and Hoarding.* Speculation plays an important part in the fluctuation of prices even in normal times. It is supposed to help in the adjustment of prices ordinarily, but in war

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1. Indian Trade Journal : Summary of Crop Forecasts.
2. Annual Report for Currency and Finance, 1942-43.
3. Ibid
4. The United Kingdom Commercial Corporation.

times there is a glut of it. It thus keeps back essential commodities from the consumer in the hope of further rise in prices. Mr. L. Nimenyi rightly calls the speculator the hoarder and the gambler, "public enemy number one."[1] Whether the hoarding is done by provincial governments, *baniyas*, banks or zamindars, the action is equally criminal and amounts to blood-sucking of innocent people, says Mr. Nimenyi. "What about these cold-blooded gamblers who openly pride themselves to have cornered markets successfully and boast to have made crores out of nothing ?"[2] Speculation on margin was greatly responsible for the rise in prices in India in the days of war.

(*d*) In a period of war, the psychology of the man in the street changes. Not only the speculator and the primary grower stimulate the increase in prices, but the ordinary consumer too, if he is not a mere day-to-day purchaser of necessaries, lays in stocks as far as he can afford them and innocently gives a further upward push to prices and this is what happened in India in 1943.

(*e*) *Transport difficulties and maldistribution of goods.* The movement of army personnel and equipment made tremendous demands on railways. The carriage of coal by rail, previously largely done by sea, laid an added strain on railways. The reduced supply of petrol, rubber tyres and motor lorries severely handicapped road traffic. It was, therefore, not possible to convey essential commodities from surplus to deficit areas in sufficient quantities. In addition, full co-operation was not given by different provinces and the Central Government had yet to gain experience of thorough co-ordination. As a result hoarding, profiteering and speculation ruled.

(*f*) *Failure of Government Controls.* All warring nations—totalitarian and democratic—put a "Blanket Control" on prices.[3] The object was to make prices insensitive to additional currency needed for war finance. War loans were initiated to absorb the redundant money.

It was not desirable to restrict agricultural prices in India in the early days of the war.[4] The Indian peasant had suffered severely from depressed prices after 1929 and he was to be allowed to recoup losses. In the last quarter of 1941, Government fixed wholesale prices of wheat in the *mandis* in the Punjab and also appointed a Wheat Commissioner. Prices of cloth and yarn also shot up. In 1942, three Price Control Conferences were held, but extension of control to all commodities was not thought of. Due to lack of strict physical control over commodities a black market developed and wheat and other essential necessaries went into hiding. Wheat had to be decontrolled in 1942.[1] Sugar, kerosene and petrol were also controlled and they developed high prices in the black market. In 1943, the Government controlled cloth and yarn, and started a scheme of sale of "Standard Cloth" to the poor all over India at fixed prices.

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[1] L. Nimenyi—War and Prices, p. 43.

[2] Ibid. p. 43.

[3] The U.K. introduced full price control in July 1941, Canada in November 1941, and the U.S.A. in April 1942. Blanket control signifies the fixation of maximum prices and taking steps to smother the rise, if any, in the future.

[4] Second Price Control Conference, January 1940.

The Central Government did not achieve a brilliant success in their control policy in the early stages mainly because their methods were haphazard and unco-ordinated. They fixed prices but did not control the supply of commodities nor did they have recourse to rationing of essential commodities.

5. **Effects of the rise in prices.** Rising prices do not have the same effect on all persons. The smaller the income and the larger the family, the greater is the hardship. People with bigger incomes have to sacrifice only luxuries and comforts while the poor have to part with necessaries. In India the majority of people being poor, the suffering was accordingly greater. The Cost of Living Indices for working classes in some towns of India given below give an idea of the higher cost of living.

TABLE III.

Working Class—Cost of Living

	Base 1934=100 Bombay	August 1939 =100 Nagpur	August 1939 =100 Kanpur
1945	235	259	308
1946	259	285	329
1947	279	320	378
1948	303	372	471

Inequalities in income are greatly aggravated by the rise in prices. Let us discuss the effects of this rise on different activities and classes in India in detail.

1. *Effects on Production.* When prices are low a certain amount of rise encourages production but a steady and steep rise in prices results in a continuous rise in the cost of production. As a result demand declines after a certain stage. Thus it is seen that production has declined in India resulting in a crisis.

Inflation creates a false idea of prosperity. Each rupee the business man gets, however, is worth much less in goods. Taxes are heavy. More money does not bring greater economic welfare.

Inflation creates big contrasts of wealth and poverty. Only a few are prosperous, most of the people are not happy.

2. *Effects on Labour.* Due to a rise in prices and a higher cost of living the labourers are unhappy. The Bombay cost of living reached the high level of 268 in 1947-48 as compared with 100 in August, 1939. Dearness allowances are given to keep labourers

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[1] This is the usual argument advanced against controls. It must be remembered that the failure of Government in controlling prices was due to the fact that their action was not systematic. The commodity of wheat should have been appropriated and rationed at the fixed price.

contented but they quickly become inadequate due to the rising spiral of prices. There is great unrest resulting in disputes and strikes.

The position of agricultural labourers, in so far as they are not paid in kind, deteriorates. Their wages do not rise in proportion to the rise in prices.

3. *Effects on middle-class people.* They form the backbone of society, and are generally educated. Most of them are employees either under Government or in business offices. Thus their incomes are fixed. They are the worst sufferers when prices rise. They are compelled to reduce their standard of living as they have not got much savings to fall back upon. A large percentage of their income is spent on clothing their families. This expense must be kept up for the sake of appearances, at the cost of their diet, which suffers in quality. Even their savings and provident funds proceeds deteriorate in value, thus they are the worst hit. An intelligent Government must tackle their difficulties thoroughly, for out of them are born leaders who may prove dangerous to any stable Government.

4. *Effects on hoarding and black-marketing.* Rising prices always stimulate hoarding of all sorts of commodities including foodstuffs. Producers, traders and consumers all try to hoard. Some hoard for better prices and indulge in black-marketing, others hoard because they are afraid of higher prices and black-marketing. Government tries to curb these unsocial activities but their efforts are ineffective so long as inflation lasts.

We may conclude then that the industrialist, the speculator, the trader, the contractor, the business man, all generally profit enormously from rising prices. They suffer only if Government successfully controls their operations and taxes their gains.

6. **Remedies.** (*a*) *During war-years.* The Government of India at last realized the seriousness of the situation. They took a wide range of remedial action as the year 1943 advanced, both on the side of reducing the money supply in the country and of increasing goods and distributing them better. The various steps may thus be epitomized :—

(*i*) One effective method to curb prices from rising further is to stop expansion of currency. If more and more money is put in circulation and strong controls are not applied to make it ineffective, prices are bound to rise in a spiral curve. The pace of British purchases in India was at its maximum in 1943 and correspondingly so was note circulation. After that the additional notes put in circulation by the Reserve Bank of India were at a slower speed.

(*ii*) The second remedy is to reduce the current money in circulation, *i.e.*, to deflate. This is always a painful business but it can be achieved in the following ways :—

(1) *Taxation.* Taxation had already greatly increased in India but more had to be imposed. The Indian economists in their

manifesto suggested, "Taxation, in our opinion, should be raised to the highest practicable pitch, adjusted to shoulders that can bear it."

The arrears of the Excess Profits Tax amounted to Rs. 100 crores in May, 1943. An Ordinance was passed to realize them. Sales of income-tax certificates, in advance of the payment of the tax, further helped matters.

(2) *Compulsory Savings Schemes.* Such schemes could be initiated to compel the zamindar, who was better off, to save more. Some provincial Governments decided to appoint canvassers in each district to induce people to buy defence Bonds and Certificates and thus withdraw about Rs. 10 crores from circulation.

(3) Dearness allowances and higher wages were granted. This was bad in principle as they only helped inflation and further raised prices. Instead, employers, including Government, should have retrenched in every direction and opened depots for sale of essential commodities to their employees at reasonable rates. Rationing should have been adopted.

(4) Government efforts at borrowing in India did not meet with sufficient success. This was due to lack of confidence in the Government and to the presence of more attractive avenues of investment from the point of view of returns Confidence was later largely restored due to Allied successes. But until other forms of investment were made less paying, Government loans could not have been heavily subscribed to.

In fact, all possible measures to put a stop to high profits, wages, dividends and bonuses should have been quickly put in train.

(*iii*) *Check on speculation.* Hedge contracts in cotton were banned. Dealings in futures in wheat and other primary commodities on Produce Exchanges were also prohibited. Forward dealings on margin basis on the bullion market were restrained by a ban on forward dealings in gold and silver. All possible measures were gradually adopted to put trade on a cash basis to control the speculative element in prices.

A Capital Issues Control Order was passed to prevent the growth of mushroom companies. As time went on, gaps discovered were filled in and Government regulations strictly enforced.

(*iv*) *Price Controls.* Partial control is worse than no control. It results in black markets by driving the commodity controlled underground. The Government fixed the price of wheat in the Punjab in 1942 without controlling its supply and failed. What was needed for success was "a blanket control of all prices,"[1] *i.e*, fixing a ceiling to prices as well as acquiring physical control over it. Only then could the extra purchasing power in the country be tied up. This was not an easy job in a vast country like India, especially when every province pulled its own way and every petty State had a policy of its own. The problem of food supply in India should have been treated as one single problem. A comprehensive policy of co-ordination from the Centre was the only way to solve it. Later on, experience already gained from the control and distribution of sugar, tea, etc., helped the Government in a solution of the urgent problem of food with growing success.

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[1] Manifesto by Indian Economists.

(*v*) *Transport*. The main problem in India was not only that of deficit in food but also its proper distribution. Quick and cheap transport of commodities equalizes prices Steady and equitable rate all over the country discourage hoarding for higher prices. All possible efforts, therefore, were made to grant priorities to movements of food. In spite of all efforts, however, railways could not possibly do all that was needed of them.

(*vi*) *Increased production*. Mr. G. D. Birla, a business magnate, was of the opinion that prices could be brought down with an increased production of commodities. The supply of agricultural products is comparatively inelastic and that of manufactured goods, too, is limited by the supply of machinery and tools. An increase in commodity supply can, to say the least, be limited and cannot keep pace with expanding money. Hence, while making all possible efforts to increase the production of essential commodities, the monetary side should not have been neglected.

To increase the growth of food crops in India, imports of fertilizers from the U.S.A., and American experts to train Indian cultivators in scientific methods of farming and animal husbandry were suggested. Suitable Indians could also be deputed to study foreign methods in actual practice.

The area under food and non-food crops needed to be planned and controlled. Mere propaganda campaigns like the "Grow More Food," "Use Less Cloth," "Travel When You Must" either achieved nothing or overshot the mark. What was needed was a thorough Centralized plan, carefully supervised and strictly regulated and that was not possible with an alien government at the helm of affairs.

The war was over, but prices still went on rising. As noted previously, the Government grew highly perturbed in 1948 and consulted different bodies including independent economists. They suggested the following remedies :—

(*A*) *Fiscal measures* (i) *Expenditure*. There should be vigorous retrenchment. Unnecessary staff both at the Centre and in the Provinces should be dispensed with. Economy Committees should be set to work. Even expenditure on social, educational and welfare activities should be curtailed and only so much allowed as can be met out of current revenues. No grants should be made to Provinces unless absolutely essential and the Central budget balanced, Defence budget should be scrutinized and cut wherever possible. The refund of E.P.T. should be postponed and all expenditure which is not immediately productive should be withheld. In this connection it would be wise to postpone prohibition programmes and Zamindari abolition. Even capital expenditure should be met out of genuine borrowing. In fact, not a pie should be spent unnecessarily.

(ii) *Taxation.* Steps should be taken to realize the whole of the evaded income tax. A graduated surcharge of income-tax should be levied on all incomes above Rs. 5,000. Business profits tax should be raised to 25%. Steeply graduated death duties are recommended. Income-tax on agricultural incomes and surcharge on higher limits of land revenue should be introduced everywhere.

(iii) *Borrowing.* Six-monthly and yearly Treasury Bills at slightly higher rates of interest would be useful. Small savings should be encouraged as well as Bonds and Certificates carrying higher rates of interest. The Mahatma Gandhi Memorial Fund should be kept intact for the time being.

(*B*) *Monetary Measures.* The total value of notes issued by the Reserve Bank should be limited to the existing amount with a margin of discretion to meet genuine variations in seasonal demands. All banks should be required to hold Government securities to the extent of 25% of their total demand liabilities.

(*C*) *Controls.* Capital issues for industrial enterprises should be made as free as possible, banking companies and investment trusts should be carefully scrutinized. Imports of essential consumer goods should be given preference and as large as possible But the imports of non essential goods should not be allowed. Export controls should be exercised with a view to implementing bilateral trade agreements required for securing imports of essential goods.

It is essential to freeze all personal incomes such as wages, salaries, and dividend above a certain fixed minimum. Undistributed profits should be invested in one or two-year certificates.

The Government must accept the responsibility of preventing prices of food grains from exceeding fixed ceiling prices. In urban and industrial areas, food grains should be distributed through ration shops. Steps should be taken for compulsory procurement of food grains and importing them from abroad.

Control and distribution of cloth and yarn, paper, vanaspati, steel, cement, coal, etc., should be reintroduced.

(*D*) *Production* A programme of production targets should be laid down for each major industry. Small scale and cottage industries should be fully developed.

Some of the above recommendations have been taken up, while others are being implemented gradually.

7. Price Control and Rationing The man in the street in India supposed that with the cessation of hostilities in the world, the control on prices and the rationing of necessaries would automatically come to an end. His expectations were belied. The war was over but the controls continued. The reasons are obvious. Machinery in Indian factories was greatly worn out due to double-shift working during the war. New machinery was not available either from England or the U.S A. The former was equipping her own factories for a spate of consumer goods to be exported abroad. Such exports were urgently needed to correct her debt-ridden economy. The latter (U.S.A.) would not supply capital goods to India on credit nor did the British exchange India's sterling assets into dollars to buy them from the U.S.A. Thus sufficient imports of required machinery were not possible. On the other hand, there were large numbers of people in India simply lousy with money and prepared to spend it on goods which they could not buy during war time. Thirdly, there were vested interests which refused to release what they had. It is reasonable to conclude that controls would stay for a long period in such circumstances.

Price Controls in India. The common experience in India has been that the moment anything is controlled, it simply disappears from the open market. It then makes its appearance in the black market and is sold at inordinately high rates. The Government of India had no experience of price controls and were caught unawares by the advance of Japan in the East. The prices rose steeply and the Government tried to meet the situation by half measures. Besides, the E.P.T. had been imposed to win for the Government its share of the wealth won by the black marketer from the consumer. the Government control was, therefore, lax The controlling staff was far from vigilant. It was also corrupt Very few cases of breach of law were detected and those that went to court usually failed. If the guilty parties did happen to be convicted, the punishments awarded were ridiculously low. In fact it was not realized that the black marketer was the enemy of the people and deserved condign punishment for his sins. Nor did the public co-operate with the Government. The consumers hoarded and the dealers created artificial scarcities as much as they could The district authorities into whose hands the Government left things were often incompetent and inexperienced. The greatest fault of the Government lay in that their control was ineffective and weak. They controlled prices and not supplies When ultimately the Central Government started controlling supplies, the provincial Governments refused co-operation and made profits out of the needs of the poor starving consumers. Thus these half-measures resulted in chaos and a merry black market flourished.

Resources are limited in every country, more so in India, which depends for many types of manufactured consumer goods on foreign countries. The scarcity is accentuated in war times when Government utilizes capital and labour in prosecution of war. On the other hand, demand increases, as most people have more than they ever had before. If the rich are allowed a free hand and can buy all they need or fancy, very little would be left for the poor. In times of war an equitable distribution is a much more urgent necessity. Only *rationing* can achieve this.

When supplies are uncertain and insufficient, rationing is all the more essential. This was what happened to food supplies in India when Burma was occupied by the Japanese. The surplus provinces, like the Punjab, objected to being rationed. But as Mr. Kirby, the Rationing Adviser to the Government of India, said, "Could a surplus food grain producing area today be in that fortunate position always ?" The problem had to be viewed for the country as a whole. India was a single Centrally-administered unit. If the United Provinces refused to give sugar, the Punjab her wheat, Bengal her jute, and Bombay her cotton textiles it would lead to ‘chaos and disorder. The U.N.R.R.A. (United Nations Relief and Rehabilitation Administration) could not be expected to help India if all possible economies had not been carried out within the country and all resources properly mobilized.

The best way of rationing is to look on all people, rich and poor, as equal and to allow no discrimination whatsoever. This would avoid long queues, save time, discourage black markets and eschew much heart-burning. The special permit system, which resulted in so much corruption in the distribution of cloth in India, should be utilized only in the case of rare commodities which are not in universal demand or are too expensive for the common man.

Rationing of one commodity, as a matter of course, leads to the rationing of others. Money saved in one direction, say cloth, will be released for buying other goods, and to avoid a steep rise in their prices the State would be ultimately compelled to ration those other goods as well. Further rationing involves a complete control over supply of goods and sometimes a monopoly procurement at the origin. Once the State starts rationing it must honour the ration cards. ✓At the start the Government of India made mistakes due to ignorance and negligence. They had no experience and no trained personnel. Experts could not be created to order. There was much bullying, a great deal of red-tapism and corruption on a large scale. This naturally disgusted both the honest business man and the consumer. A proper organization builds up public confidence. It is seen that rationing of food avoids waste. Every one feels that he should economize. There is a feeling that food is valuable and should be saved. Large parties are given up; courses at major meals in restaurants and hotels are prescribed; while numbers at marriage and other social functions are limited. All this results in saving of food. Rationing avoids long queues, reduces black-marketing and makes the best of meagre resources. It compels people to save money and thus neutralizes inflation. ✓It is due to successful rationing alone that prices have not risen to such heights in the West.

Rationing, therefore, should have been continued as long as there was not enough food, cloth and other goods to go round in the country. It did not matter whether these goods were produced in India or imported from abroad. But the Government of India adopted a policy of decontrol in December, 1947. They fondly hoped that goods which had gone into hiding would come out in the open market and scarcities would disappear. They vainly appealed to the spiritual and patriotic instincts of businessmen and advised them to keep the prices low. They were mortified to see prices shoot up rapidly so much so that the general price index number soared up to 385 in July, 1948, against 298 in July and 302 in November 1947.

The Government revised their policy and introduced controls in food grains and cloth again to secure their distribution at reasonable prices. Rationing in sugar was not reintroduced, but steps were taken to reduce its price. Measures were adopted to secure better distribution of essential commodities like kerosene, iron and steel and cement. Prices of cloth were controlled at a higher level but a certain quota of Indian mill cloth as well as the whole of foreign imported cloth was left to be sold freely without permits. As a consequence of these various steps prices started falling after July, 1948, and the general price index in March, 1948, has come down to 370.

CHAPTER XXVIII

CURRENCY AND EXCHANGE

1835-1925

1. **Introduction.** To understand properly the present currency position in India it is necessary to trace briefly the Indian currency history for the last hundred years. During this time India has had experience of silver standard, a gold exchange standard, a gold bullion standard, and a sterling exchange standard. Throughout the period, there has been an undercurrent of demand on the part of Indian opinion, sometimes also supported by high Government officials, for a full-fledged gold standard with gold coins circulating as currency. This ideal still remains to be realized, but its possibilities now are intimately bound up with the recent international currency developments.

2. **Establishment of Silver Standard** (1835). The silver mono-metallism was established in India by the Currency Act of 1835. Before that date, the silver rupee and gold mohur were current in Northern India since Akbar's time and in the South gold was the principal currency. In addition, there was a bewildering variety of coins current in different parts of the country, when the East India Company came upon the scene.[1] And it was their desire for a uniform currency system in the interests of trade that culminated in the passing of the Act of 1835.

Under the silver standard, any one could take silver to the mint and could get it coined into rupees weighing 180 (11/12 fine) free of charge, Gold, however, did not entirely disappear from the field. The Act of 1835 authorized the coinage of gold coins if required by the public ; and a notification of 1841 authorized public treasuries freely to receive gold coins (gold mohurs) at their face value, *i. e.*, at the rate of 15 : 1, in payment of public dues. This notification was withdrawn in 1852, when large quantities of gold coins began to accumulate in the public treasuries, due to the fall in the price of gold. The authorities kept to the policy of silver mono-metallism, in spite of agitations now and again in favour of a gold currency, up to the year 1893.

3. **Breakdown of the Silver Standard.** Difficulties began to arise in the working of the silver standard after 1874, due to the fall in the gold price of silver, which began about that time. The rupee being a full-bodied silver coin freely minted, its value (rate of exchange) in terms of gold (or sterling) fell with the fall of the gold

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[1] According to an estimate, 994 different gold and silver coins of varying weights and fineness were current.

value of silver. The price of silver fell from 53d. per oz., average of five years ending 1880, to 39*d*. per oz. in 1893; and correspondingly the rate of exchange fell during the same period, from 20·5*d*. to a rupee to 14·9*d*.

The fall in the gold price of silver was due partly to the greater supply of, and contraction in the demand for, silver and partly to the smaller production of gold, on the one hand, and the greater demand for this metal on account of substitution of gold currency in place of silver by a large number of European countries,[1] on the other.

The consequences of the fall in the value of silver were serious. It paid people to purchase silver cheap and get it coined into rupees from the mints. This led to a general rise in prices, due to the increase in the amount of money in circulation. The import trade also suffered, because more silver rupees were required to pay for imports of a given value in sterling. The trade in general, including exports, was also unfavourably affected due to the element of uncertainty regarding the rate of exchange. Moreover, the European officials in India demanded allowances to make up for the loss they suffered in meeting their sterling obligations in England. But the greatest problem that arose was in connection with the payment of what are called "Home Charges." These are, as we have seen, payments made by India in the United Kingdom to meet salaries and pensions of British officers in Indian service there, her obligations in connection with interest on sterling debt, prices of stores purchased, and shipping services rendered to India. The fluctuating exchange introduced considerable amount of uncertainty in budgeting for the Home Charges, besides increasing their burden in terms of rupees. As the Finance Member of the time pointed out, a fall of one penny in exchange would have meant a deficit of three crores of rupees in the budget[2] while a rise of one penny would have led to a surplus.

Something had to be done. The Government referred the matter to a committee under the chairmanship of Lord Herschell. The Committee reported in 1893 and recommended the closing of the mints to the free coinage of both gold and silver. This was done by the Coinage Act of 1893, and the silver standard was ended. The Committee also recommended that the rate of exchange should be provisionally fixed at 1*s*. 4*d*.

4. Towards a Gold Standard But what system was to take the place of the silver standard? The Herschell Committee had proposed that "the closing of the mints against the free coinage of silver should be accompanied by an announcement that, though closed to the public, they will be used by the Government for the coinage of rupees in exchange for gold, at a ratio to be then fixed, say at 1*s*. 4*d*. per rupee; and that at the Government treasuries gold will be received in satisfaction of public dues at the same rates."[1] Along with Act VIII of 1893, therefore, three notifications were issued (Nos. 2662-4 of 26th June, 1893), by which arrangements were made to give effect to these recommendations.

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[1] Germany and the Latin Union (France, Switzerland, Belgium and Italy).

[2] Herschell Committee Report, para. 5.

As there was redundancy of rupee, it was some time before its value came up to 1*s*. 4*d*. The Indian exchange fell to 1*s*. 31/32*d*. on January 23, 189[illegible], after which date it rose steadily till in January 1898, it reached the legal ratio of 1*s*. 4*d*.

In 1898, an Act was passed which authorized the issue of currency notes against gold received in England by the Secretary of State at the rate of one rupee per 7·53344 grains of fine gold, plus the cost of shipping gold to India. This gold was to be kept in the Bank of England earmarked as a part of the Indian Paper Currency Reserve. The Secretary of State under a notification (January 21, 1898) announced his readiness to sell telegraphic transfers on Calcutta, Bombay and Madras, at a rate not exceeding 1*s*. 4·15/32*d*. per rupee.

"The object of the currency reforms of the 1893-98 was (i) to prevent a further fall in the gold value of the rupee, (ii) to familiarize the people of India with the use of gold without forcing it upon them, and (iii) to stabilize the rupee sterling ratio at 1*s*. 4*d*. per rupee. Obviously these measures were both experimental and transitional. The ultimate aim was the introduction of a gold standard with gold coins and rupees in concurrent circulation at a fixed ratio, the rupee being reduced to the status of full legal tender token money."[2]

When the actual rate of exchange, therefore, reached the point fixed by law in January 1898, the Government of India asked the Secretary of State to terminate the period of transition, and submitted a scheme for the introduction of a gold standard. It was to examine this scheme that a committee was appointed under Sir Henry Fowler in April, 1898.

Fowler Committee. The Committee considered some other proposals besides the one submitted by the Government of India. One of these aimed at reopening of mints to the free coinage of silver. This was rejected on the ground that it would expose the Indian currency system to the same risks and uncertainties as were experienced during 1878-93. Then there was a scheme by Leslie Probyn and another by Mr Lindsay. The latter scheme has a historical significance, because it was on the lines proposed in this scheme that the Indian currency system developed later. Both these schemes aimed at economizing gold. Probyn suggested a form of gold bullion standard, and Lindsay, what was later known as the gold exchange standard. The Committee rejected both the schemes on the ground that there was no precedent in their favour and that orthodox opinion was against them.

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1. Herschell Committee Report, para, 156.
2. H. L. Dey in Economic Problems of Modern India, Vol. II, p. 219.

In the place of these schemes, the Committee favoured the ultimate establishment in India of a gold standard with gold currency ; and to this end they proposed (i) that the British sovereigns and half-sovereigns should be made legal tender and current coins in India ; (ii) that the Indian mints should be thrown open to the unrestricted coinage of gold into sovereigns as in the three Australian branches of the Royal Mint ; (iii) that the rate of exchange should be permanently fixed at *1s. 4d.* ; (iv) that rupees should be of restricted coinage and unlimited legal tender and should not be legally converted into gold, *i.e.* for internal purposes ; (v) that gold from the reserves should be freely available in exchange for rupees whenever the rate of exchange tended to fall below the gold export point ; (vi) that coining of fresh rupees should not be undertaken till such time as gold in actual circulation tended to rise above reasonable proportions ; finally (vii) that the profits of rupee coinage should be kept aside as a special reserve called the Gold Standard Reserve.

5. The Evolution of the Gold Exchange Standard. The Government accepted all these proposals and started taking measures to implement them. The sovereign and half-sovereign were made legal tender throughout India at Rs. 15 to the £. Active steps were taken to open a mint for the coinage of gold in India, but the scheme had to be dropped in 1902 mainly because the British Treasury had raised technical difficulties. The Gold Standard Reserve came into existence in 1900 out of the profits of rupee coinage when it was resumed that year for the first time since 1893.

For implementing the recommendations of the Fowler Committee the currency offices were instructed to pass on sovereigns to the public as far as possible. The results, however, were unsatisfactory. The sovereigns and currency notes went to a discount as against the rupees. "Special demands for rupees owing to famine conditions and the inadequacy of the supplies of the favourite circulating medium combined to aggravate the general monetary stringency."[1]

It was thus that the Government had to resume coinage of rupees in 1900 on a considerable scale. This led to a recourse to the London silver market. The Act of 1898 was extended for a period of two years, "with the addition of a provision authorizing the use of the gold in the paper currency chest in London for the purchase of silver for coinage of rupees. Thus arose the London branch of the Paper Currency Reserve.

As regards the gold reserve formed out of the profits of rupee-coinage, the idea of the Government of India seemed to have bee to keep the gold locked up in a special chest in India. But th Secretary of State decided that it should be remitted to London an invested in sterling securities. It was held that it would be mo useful in London where it would have to be applied if an eme gency arose. The profits of coinage were thus remitted to Lond and put in a reserve called the Gold Standard Reserve.

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[1] Chamberlain Commission Report, para 25.

Thus were created Gold Standard Reserve and Paper Currency Reserve (London branch) in London.

In 1906 an Indian branch of the Gold Standard Reserve was created which was to be kept in the form of rupee coins. This was necessitated for meeting the demand for rupees at a short notice and was to be used to prevent the rate of exchange going to a premium over 1*s*. 4*d*. This was created by holding the profits in the coinage of rupees in the Reserve in the form of rupees in India instead of converting them into sterling held in London. It was then that the name Gold Standard Reserve was applied to these two branches of the Reserve for the first time—one in India in the form of silver rupees and the other in London in the form of sterling securities.

Upper Specie Point Fixed. In the meantime another development had taken place. The practice of shipping gold from India to London (from the Paper Currency Reserve in India to the Reserves in London) was found to be needlessly expensive. This expense could be saved by the extension of the practice of receiving gold in London in exchange for rupees in India. In 1904, the Secretary of State, therefore, announced his willingness to sell Council Drafts (called Council Bills) without limit at 1*s*. 4⅛*d*.—the gold export point from London. Meanwhile silver was purchased in London out of these proceeds and sent to India to be coined into rupees. Some gold, however, still continued to come to India from Egypt and Australia, and had to be shipped to London time and again. To avoid this expense also, in 1905 it was decided to offer telegraphic transfers against sovereigns in transit from Egypt or Australia to India.

Thus it was that the upper limit of the fluctuations of the rupee-sterling exchange got fixed at 1*s*. 4⅛*d*. The exchange could not rise above this point as long as the Secretary of State was willing to sell Council Bills at that price. The exchange, however, fell below the gold export point from India. But normally, India's balance of trade being favourable, such a contingency was regarded as extremely remote.

Lower Specie Point Fixed. This contingency, however, arose in 1907. "The partial failure of the summer monsoon in 1907, and the general monetary stringency all over the world which accompanied the American financial crisis in the autumn of 1907, caused the Indian exchange to become very weak. It fell to as low as 1*s*. 3·23/32*d*. on 23rd November. The exchange did not improve until the Indian Government agreed to sell telegraphic transfers and later sterling bills on London the price of which was ultimately fixed at 1*s*. 3·29/32*d*. the gold export point from India. In all, over £ 8 million were withdrawn from the Gold Standard Reserve to meet these bills (later called Reverse Councils)

The net result of all these measures—forced on the Government by circumstances—was the emergence of a system usually described as the Gold Exchange Standard and not the system originally aimed at and recommended by the Fowler Committee *i.e.*, gold standard with currency.

6. Main Features. The main features of the new system were :—

(1) The internal currency consisted of the rupee which, though a token coin, was also the standard of value ; the notes (issued by the Government) ; and small subsidiary coins which were legal tender. There were also in circulation sovereigns in a limited quantity.

(2) The rupee was convertible into gold only for external purposes at the rate of 16*d.* to a rupee.

(3) The sterling (gold) value of the rupee was regulated between 1*s* 4⅛*d* (the upper specie point) and 1*s.* 3·29/32*d* (the lower specie point) through sale of Council Bills and Reverse Council Bills respectively.

(4) To work this system two reserves were maintained, one in India mainly in rupees and the other in London in sterling. The Indian reserve was constituted by (*i*) the Indian portion of the Paper Currency Reserve ; (*ii*) the silver branch of the Gold Standard Reserve ; and (*iii*) the treasury balances of the Government. The London Reserve consisted of (*a*) the London Branch of the Paper Currency ; (*b*) The Gold Standard Reserve ; and (*c*) the balances of the Secretary of State. These reserves were created for separate purposes, but in practice they were available for the support of exchange in the case of necessity.

This system worked quite smoothly until it broke down during the Great War (1914-18). In the meantime it had received the approval of the Chamberlain Commission.

7. Chamberlain Commission. The Chamberlain Commission was appointed in April 1913, under the chairmanship of Austin Chamberlain, to examine the mechanism of Indian currency and exchange and to suggest measures for its improvement. The Commission in their report (issued in February 1914) approved of the various measures taken by the Government to stabilize exchange. They were of the definite opinion that the gold exchange standard was not only workable but was eminently suited for India, because of the absence in this country of a well-developed banking system, and on account of its cheapness. Due to the hoarding habit of the people they considered a gold standard with gold currency, as proposed by the Fowler Committee, as absolutely undesirable They had no objection in principle to minting in India of sovereigns and half-sovereigns, if Indian people genuinely demanded them, and the Government were ready to incur the expenses. Among the minor alterations proposed in the system by the Commission were the prompt selling of Reverse Council Bills and the abolition of the silver branch of the Gold Standard Reserve. They also emphasized the need for maintaining adequate reserves of gold and sterling securities in London for the purpose of converting internal currency into external or international currency. Before the recommendations of the Commission could be properly considered the war broke out and threw the currency system into the melting pot.

8. **Breakdown of the Gold Exchange Standard.** The First World War began in August 1914. It resulted in a general loss of confidence on the part of the people and there was a rush for encashment of notes and withdrawals of deposits from the banks. The exchange also showed signs of weakness. But soon the Government was able to restore confidence by providing adequate facilities for encashment of notes and for the withdrawal of deposits from the savings banks. To support exchange Reverse Councils to the value of about £ 9,000,000 were sold.

The real trouble, however, began in 1916 which ultimately led to the breakdown of the Gold Exchange Standard. For the success of the system it was necessary that the Government should be able to maintain the stability of exchange. This the Government failed to do, because an excessive demand for rupees arose at a time when the price of silver was rising to an unprecedented level.

The excessive demand for rupees was due to (*i*) excess of exports over imports. The increase in the favourable balance of trade was due to (*a*) falling off in imports due to shipping difficulties and other circumstances of war, and (*b*) stimulation of exports on account of greater demand for Indian materials for war purposes on the part of Great Britain and her Allies ;

(*ii*) demand for currency was further aggravated because of the need for making payments on account of troops engaged and supplies in the Eastern theatres of war ;

(*iii*) further, there was need for financing purchases in India on behalf of the Dominions, Colonies and America ; and

(*iv*) as silver could not be imported to liquidate the favourable balance of trade on account of war-time restrictions, the demand for rupees was further aggravated

To meet this growing demand for rupees, the Government had to purchase silver at rising prices. From 27*d*. per oz., the price of silver rose to 43*d*. in 1916. This price is significant, because at this price the rupee ceases to be a token (exchange value becomes equal to its bullion value). In 1920, the price rose to 89*d*. per oz.

The rise in the price of silver was caused by (*i*) the shortage of supply, (*ii*) heavy demand for silver chiefly for coinage purposes, and (*iii*) depreciation of the sterling in terms of dollar due to the unpegging of sterling-dollar exchange in March 1919.

The consequences of this rise in the price of silver on Indian exchange were serious. From August, 1917, the rupee ceased to be a token coin. It paid people to melt it and sell it as silver. It was, therefore, not possible for the Government to purchase silver at the new rising price and supply rupees at 1*s*. 4*d*. without

out incurring enormous losses. Moreover, the newly-issued rupee coins were disappearing from circulation due to their being melted by the people.

On the 28th of August, 1917, the Secretary of State raised the rate of Telegraphic Transfers from 1*s*. 4½*d*. to 1*s*. 5*d*. and soon it was announced that the price of the rupee would be changed according to the changes in the price of silver. This was virtually the reintroduction of the silver standard.[1] The rate of Telegraphic Transfers was thus raised from time to time until it stood at **2*s*. 4*d*.** on the 12th of December 1919.

Some other measures taken by the Government to meet this situation were :

(*i*) *Control of Exchange.* The Secretary of State limited the sale of Council Drafts from 20th December, 1916, to an amount varying between Rs. 20 and 120 lakhs. This was to reduce the necessity of paying rupees.

(*ii*) *Purchase of Silver.* Import of silver on private account was prohibited and the Government made large purchases of this metal from the U. S. A. for coinage purposes.

(*iii*) *Certain measures were taken to economize silver.* The use of gold and silver for non-monetary purposes was declared illegal. The export of silver coin and bullion was prohibited. Two-and-a half rupee and and one-rupee notes were issued. Nickel pieces of small denominations were coined.

(*iv*) *The Government purchased all the gold* that was imported and deposited it in the Paper Currency Reserve for notes to be issued against it.

(*v*) *Among the financial measures* taken to meet the currency difficulties were additional taxation, curtailment of capital expenditure and extensive borrowing in India.

In spite of all these measures—which were quite valuable in themselves—the Government was unable to maintain the exchange at an artificial level and thus the Gold Exchange Standard broke down.

9. The Smith Committee. After the war was over a currency committee was appointed in May 1919, under the chairmanship of Babington Smith. Taking into account the recent variations in the price of silver and the future expectations in this respect, the Committee recommended 2*s*. (gold) as a safe ratio which would keep the rupee a token coin. Other advantages claimed for the high ratio were (*i*) that it would cheapen imported materials and machinery. Exports, however, would not be discouraged because of the great demand for Indian produce in the world market owing to shortage of materials and foodstuffs ; (*ii*) Government finances would gain because it would mean a saving of about Rs. 12 crores in the Home Charges.

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[1] Vakil and Muranjan : Currency and Prices in India, p. 112.

In addition, the Committee recommended opening of a mint in Bombay for the coinage of sovereigns and half-sovereigns for the public ; removal of restrictions on the import and export of gold and import of silver on private account. They further recommended that the Gold Standard Reserve should contain a considerable proportion of gold and that 50 per cent. of the Gold Reserve should be kept in India. Mr. D. M. Dalal, the only Indian member of the Committee, in his Minute of Dissent recommended 1*s*. 4*d*. as the ratio and favoured the issue of two-rupee coins of smaller silver content during the period of high price of silver. The Government accepted the main recommendation of the majority.

10. The 2*s*.-Ratio. The new ratio was adopted from the 2nd February 1920 when the Secretary of State fixed the price of one rupee at 11·30016 grains of fine gold. The 2*s*. (gold) ratio did not work long. It fixed the price of gold at Rs 15-14-0 per tola when actually the market price of gold at the time was Rs. 22-8-0. Hence it was impossible for the Government to supply, for long, sterling at a rate corresponding to 2*s*. (gold) per rupee. A great demand for sterling had arisen because of the balance of trade turning against India after 1919. Moreover, there was speculation in exchange. People began to convert rupees into sterling with the hope of making profits by reconversion of sterling into rupees when the exchange fell later. The European community also took advantage by sending their remittances at the new favourable rate and so did the importers of goods by making payments without delay for their imports. All these factors created great demand for sterling.

The Government had to pay more than 2*s*. in sterling because of the depreciation of sterling in terms of gold. Thus, while the Government was selling sterling at about 3*s*. per rupee the actual market rate was much less. Sterling was appreciating in terms of rupees not only on account of the great demand for it in the exchange market but also because prices were falling faster in England than in India. The Government tried to maintain exchange at 2*s*. gold at first and at 2*s*. sterling later but all these attempts ultimately failed. On 28th September 1920, the Government refused to sell sterling drafts on London. But by that time Reverse Councils to the tune of £ 55·2 million had been sold These had been met in London by the sale of sterling securities and treasury bills belonging to the Paper Currency Reserve. These securities had been bought at Rs. 15 per £ and had to be sold at Rs. 7 to Rs. 10 per £, and the Government suffered a total loss of about Rs. 35 crores.

The result was a continuous fall in the rate of exchange which sank to 11-9/32*d*. gold or 1*s*. 3-13/32*d*. sterling by July 1921, with serious consequences on Indian foreign trade[1]. The Government now allowed the exchange to adjust to world conditions in order that the Indian prices may not unduly be disturbed. By January, 1923, the exchange began to rise again, due to the revival of favourable balance of trade, till it reached the level of *1s. 4d.* gold or *1s. 6d.* sterling in October 1924. At that time the Government was pressed to stabilize it at that rate. But the Government refused to do so. By limiting the supply of currency the Government raised the ratio to *1s. 6d.* gold by April 1925. A few months after this a Royal Commission was appointed to review the whole situation.

11. Government Policy Criticized. The policy of the Government in fixing a high exchange and then maintaining it at a considerable loss to India has been severely criticized. It is argued that the price of silver was admittedly uncertain and so was the sterling-dollar rate, hence the Government should have waited for some time before taking a definite step in fixing the exchange. During this period of uncertainty the exchange should have been left free to its own level.

It was easy to foresee that after the war, the imports were bound to increase and the exports were likely to fall. Europeans, who had made large profits would also demand facilities for remittances. All this would mean a very large demand for sterling.

Thus a little vision on the part of the authorities would have convinced them that forces were at work which would wreck their scheme of *2s.* ratio. Had the exchange been left free to find its own level it would have settled at a lower point, and thus would have served as a corrective to the impending unfavourable balance of trade. Enforcement of the high exchange, on the other hand, exaggerated the effect of these forces. The Government is criticized not merely for introducing the *2s.* ratio but also for persisting to maintain it even after it had become clear that it was a hopeless task to do so.

Why was the Government so attached to the high exchange? "What they (the India Office) wanted was to push up exchange by deflationary measures so that it would be helpful to imports."[2] Thus it were the British interests that were guiding the policy of the Government. The idea was to encourage British imports into India by raising the value of the rupee in terms of English money. "High exchange," said Mr. Ainscough, "places the British manu-

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1. G. D. Birla—Indian Currency in Retrospect (Kitabistan), p, 13.

2. "The collapse of exchange within twelve months from the level of *2s. 4d.* prevailing in April 1920 to below *1s. 3d* was critical for importers, many of whom had ordered goods when exchange was high without fixing their exchange and who were unable or unwilling to settle at the low rate prevailing when the goods arrived. At the close of the year the Indian ports remained congested with imported piece-goods, motor cars and other articles of which delivery had not been taken. In further contrast to the preceding year there has been an almost continuous return of rupees from circulation, a symptom of general stagnation of trade." (Report of the Controller of Currency for 1920-21.)

facturer in a more favourable condition *vis-a-vis* his competitor in India. On the whole, therefore, his material interests would appear to be best served by the fixation of exchange at as high a rate as may be possible under the circumstances."[1] No wonder that the Smith Committee's report was so favourably received by the British Press.

The Government policy imposed a threefold loss on India : (*i*) For her supplies to the Allies during the last war (as in this) India was paid not in goods but in sterling credits. This accumulated sterling was squandered by the Government to the value of about £24 million in their attempts to maintain the 2*s*.-ratio. (*ii*) In so far as the high exchange stimulated imports it adversely affected Indian industries. (*iii*) The sudden decision of the Government to let exchange fall to its natural level ruined many Indian importers who had ordered foreign goods at the high exchange and were now required to pay more than double in terms of rupees than what they had expected to pay. The Government policy might have served the material interests of England but not those of India.

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[1] Mr. Ainscough's Report on British Trade in India, etc., quoted by Brij Narain : Indian Economic Problems, part I, p. 213.

CHAPTER XXIX

CURRENCY AND EXCHANGE (Contd.)

1926-1939

1. **Defects of the Gold Exchange Standard.** On 25th August, 1925, a "Royal Commission" was appointed under the chairmanship of Lieutenant-Commander Hilton Young "to examine and report on the Indian currency system and practice, to consider whether any modifications are desirable in the interests of India, and to make recommendations."

The Commission found the following defects in the Gold Exchange Standard as it operated in India :

"(1) The system is far from simple, and the basis of the stability of the rupee is not readily intelligible to the uninstructed public. The currency consists of two tokens (rupee coin and rupee note) in circulation, with the unnecessary excrescence of a third full value coin (sovereign) which does not circulate at all. One form of token currency (into which there is an unlimited obligation to convert the other) is highly expensive, and is liable to vanish if the price of silver rises above a certain level.

"(2) There is a cumbrous duplication of reserves, with an antiquated, and dangerous, division of responsibility for the control of credit and currency policy.

"(3) The system does not secure the automatic expansion and contraction of currency. Such movements are too wholly dependent on the will of the currency authority.

"(4) The system is inelastic. The utility of the provision[1] for elasticity made on the recommendation of the Babington Smith Committee is affected by the methods of financing Indian trade."[2]

2. **The Gold Bullion Standard.** The Commission's task was threefold : (*i*) to propose the currency system best fitted for India ; (*ii*) to suggest the ratio at which the rupee should be stabilized with the sterling ; and (*iii*) to recommend measures for the establishment of a central bank. The Commission proposed the Gold Bullion Standard as the currency system for India ; 1*s*. 6*d*. as the exchange ratio ; and a central bank—the Reserve Bank of India—to take charge of the central banking functions. The scheme of the Reserve Bank will demand our attention in a subsequent chapter. The other two proposals will be discussed here.

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[1] See next chapter.

[2] Report : Hilton Young Commission, 1926, Para 21.

Before finally recommending the Gold Bullion Standard the Commission examined the pros and cons of other possible alternatives: (*i*) the adoption of gold exchange standard, and (*ii*) the adoption of a gold standard proper with gold currency. All these alternatives were rejected[1]. They recommended a "gold standard without gold currency" or the "Gold Bullion Standard" as it was called. Thus wrote the Commission :—

"It is possible to have a true gold standard under which the currency is based on gold both in reality and in a manner that is conspicuously visible, without putting gold into circulation…… The essence of the proposal……is that the ordinary medium of circulation in India should remain as at present the currency note and the silver rupee, and that the stability of the currency in terms of gold should be secured by making the currency directly convertible into gold for all purposes, but that gold should not circulate as money. It *must* not circulate at first and it *need* not circulate ever." (Para 54)

Thus the main features of this system were as follows :—

(*1*) The currency authority (the proposed Reserve Bank when established, in the meantime the Government) was to buy and sell gold (under statutory obligation) at certain fixed rates in quantities not less than 400 fine ozs. (=1,065 tolas). The conditions of the sale of gold were to be so fixed that normally the currency authority would not be called upon to supply gold for non-monetary purposes.

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[1] The grounds on which these systems were rejected are given below:

(*a*) **Sterling Exchange Standard** : Even if perfected by amalgamation of Gold Standard and Paper Currency Reserves and by imposing statutory obligation on the currency authority to sell rupees and sterling when required without limit at the upper and the lower specie points respectively the Commission held that this system would still have serious defects, *viz*, rupee will still be subject to the consequences of rise in the price of silver, rupee will follow sterling slavishly as regards its link with gold and would depreciate when sterling depreciated resulting in high prices in India. India's dependence on the currency of a single country, however stable, is disadvantageous (para 25)

(*b*) **Gold Exchange Standard**. This would stabilise the rupee in terms of gold but will still have serious defects ; same danger of rise in price of silver; lack of simplicity; mistrust due to past experience in the minds of the people ; intangible backing for the token currency ; right of convertibility is too abstract. Backing of currency should be certain, simple and solid, (paras 29-31.)

(*c*) **Gold Standard with Gold Currency**. Large absorption of gold by India will lead to substantial fall in gold prices in the world and curtailment of credit with unfavourable reactions on India as one unit in the world trade *system; uncertainty of the estimate of the amount and time of gold demand; it would result in depression if gold price of silver fell* and depreciate the value of silver hoards of the Indian people; China might also adopt gold in place of silver as a consequence of the fall in price of silver. This will make the position still worse ; China's trade will be thrown out of gear; it would retard the progress of monetary reconstruction in Europe, would upset world prices and would be harmful to India and the rest of the world; United States with traditional silver interests will not support this policy and such support is essential for its success ; finally the scheme will involve great expense, (paras 35-52).

(2) Sovereigns and half-sovereigns were to cease to be legal tender; rupees to continue full legal tender.

(3) Government savings certificates to be issued to people for three or five years, to be paid in rupees or gold at their option. This was to inspire confidence in the minds of the people for the new system, and to bring out the hoarded wealth.

(4) The existing currency notes were to continue to be convertible into rupees, the new notes though not to be legally convertible, the facilities for conversion were to continue.

(5) One-rupee notes to be issued which were to be full legal tender but not convertible into rupee coins.

(6) The Gold Standard and the Paper Currency Reserve were to be amalgamated.

Several advantages were claimed for this system :—

(*a*) It would secure stability of exchange by making the currency convertible into gold at a fixed rate.

(*b*) It was simple and certain: thus it would inspire confidence.

(*c*) Currency would expand automatically when gold was given in exchange for rupee coins and notes, and would contract when rupees and notes were given in exchange for gold.

(*d*) Cheap gold would remain in reserve and not circulate.

(*e*) Would pave the way for the introduction of gold currency at some future date when enough gold had accumulated.

On the other hand, the Gold Bullion Standard was criticized on several grounds :—

(*a*) For the ordinary person the gold backing was neither visible nor tangible. Only big bankers and bullion brokers could purchase gold of quantities of 400 ozs. (1,065 tolas).

(*b*) Even these people could not normally find it worth while[1] to get gold from the currency authority, nor was it the intention that they should.

The purchase of gold from the currency authority was to be worth while only when it was required for making payments abroad. "As far as the ordinary holder of the rupee is concerned he would not be able to convert them into gold, when he must buy it in the bazar as at present."[1]

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[1] At the ratio of 1s 6*d* (gold) per rupee the gold was priced at Rs. 21-3-10. And this was the rate at which the currency authority undertook to sell gold When the rate of exchange is 1s 6-3/16*d*. (upper gold point) or more the equivalent in rupees of a tola of fine gold would be less than Rs 21-3-10 People would in such circumstances buy gold from the market where it would be cheaper than from the currency authority. "When the exchange is below the upper gold point the selling rate for gold will not be Rs 21-3-10 but more. The Reserve Bank shall sell gold in that case for delivery at the office at Bombay at notified prices, and these prices will be fixed so as to free the Bank in normal circumstances from the task of supplying gold for non-monetary purposes." (Brij Narain —Indian Economic Life, Past and Present.)

It was thus contended that there was no essential difference between the gold exchange system and the Gold Bullion Standard of the Commission. Only the obligation to buy and sell gold for export was made statutory. The Indian opinion as before favoured a full-fledged gold standard with gold currency.[2] And this was supported by authorities like Dr. Cannan and Dr. Gregory in their evidence before the Young Commission.

3. **The Ratio Question**. The greatest controversy, however, raged round the ratio question: 18*d*. *vs*. 16*d*. was the question. It has been called the "battle of ratios" in the history of Indian currency.

The Hilton Young Commission recommended 18*d*. on the ground (*a*) that prices in India had attained a substantial measure of adjustment with the prices in the world at large at this ratio; and (*b*) that the wages, too, had adjusted themselves.

Hence reversion to 16*d*. would mean a difficult period of readjustment; it would raise general prices by 12½%, and consequently hit hard the middle classes and the consumers, and reduce real wages of workers. It would also add to the burden of the Home Charges;

(*c*) that the contracts would not be affected, as most of them were either recent and entered into when the ratio was 1*s*. 6*d*, or when 16*d*. had ceased to be the ratio. No doubt land revenue was, in most cases, settled when the ratio was 1*s*. 4*d*., but, as prices since then had considerably gone up, the burden of this charge had correspondingly been lightened.

In criticism of these arguments, it may be pointed out that on Commission's own admission, the statistical material, on which they based their conclusion regarding adjustment of wages and prices, was unreliable, and that one year was too short a period for adjustment in a country like India where the amount of economic friction was very large. The Commission magnified the effect of ratio on Home Charges, admitting that this factor was not to be decisive ; on the contrary, it minimised that effect on long-term contracts and the losses of the agriculturists. More attention seems to have been paid to poorly-paid literates (21 %) and less to the welfare of the rest (79%).

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[1] Brij Narain :—Indian Economic Life, p. 244.

[2] Since Indian opinion has always stressed the necessity of gold currency standard for India, it would be instructive to give here the main points of the case for the system :—

(*a*) It will be automatic Prices and exchange will be kept in equilibrium with the world by export and import of gold freely as the situation may require. (This, however, will not be the case if the people hoarded the gold thus imported.)

(*b*) It will discourage the habit of hoarding. (The Young Commission did not think so.)

(*c*) It will inspire confidence, currency backing being visible and tangible

(*d*) People want gold circulation as shown by the absorption of imported sovereigns between 1900 and 1914. Academic opinion in India also favours it

(*e*) Gold currency is a necessary stage in passing to gold standard without gold currency. See also Reports, Chamberlain Commission, para 56 and Young Commission, paras 34; 56-57.)

The Indian public and academic opinion was, on the other hand, solidly ranged against 1*s.* 6*d.* and in favour of 1*s.* 4*d.* Sir Purshotamdas Thakurdas, the Indian member of the Commission, represented this view. He denied that Indian prices had adjusted to the world prices at 1*s.* 6*d.*, and till then this ratio gave the foreign manufacturer an indirect bounty of 12½%, placing a heavy strain on Indian industry. It meant an additional burden of 12½% on the large debtor class, who were mainly agriculturists. He pointed out that the loss in the payment of Home Charges at 1*s.* 4*d.* would be more than made up by increased revenue from taxes on account of industrial and agricultural prosperity. The workers would no doubt lose a bit from the rise in prices, but they would gain from continuity of employment made possible by industrial prosperity. He was able to show conclusively that the reversion to 1*s.* 4*d.* would be beneficial to Indian agriculture and industry, and hence to the people at large. Other countries were reverting to the pre-war ratios, why not India ? On the whole, it appears that the advocates of 1*s.* 4*d.* had a better case. It would have promoted economic interests of India if in 1927, the rate had been fixed at 1*s.* 4*d.*, although after some years the arguments for it lost most of their force and the opponents of 1*s.* 6*d.* were simply beating a dead horse. But the decision to fix the rate at 1*s.* 6*d.* in 1927 was certainly a wrong one. The economic conditions in the country in subsequent years furnished no evidence that this rate was in any way conducive to economic progress and stability. During the Great Depression it accentuated the fall in prices in India and retarded the recovery and prolonged the depression.

The Government, however, accepted the majority recommendations and passed the necessary legislation to give effect to them.

4. The Sterling Exchange Standard. The Gold Bullion Standard was superior to the pre-war Gold Exchange Standard because under it the Government had a statutory obligation to buy gold and sell gold or sterling. But it still had some of the defects of the old system which the Young Commission had pointed out, *viz.*, the conversion of one token currency (the note) into another (the rupee coin), the duplication of reserves and the separation of currency from credit control. The last two defects had to wait until the establishment of the Reserve Bank in 1935.

The new system, however, did not get much chance to show its success. On September 21, 1931, Great Britain was forced off the gold standard due to drain on its gold resources caused by withdrawals of foreign balances. This development had important reactions on the Indian currency and exchange system. Under the Act of 1927, the Government had bought gold and sold sterling at the lower gold point until 19th September. When the announcement of Britain having gone off the gold standard came, the Governor-General on the 21st promulgated an Ordinance suspending Section 5 of the Currency Act of 1927, the one dealing with the purchase and sale of gold and sterling. On the same day the Secretary of State informed a sub-committee of the Round Table Conference in London that it had been decided to maintain the rupee at *1s. 6d.* sterling. On the 24th of September, yet another Ordinance was promulgated (Gold and Sterling Sales Regulation Ordinance) which repealed the previous one, thus restoring the Currency Act of 1927, but authorizing the Government to sell gold or sterling for genuine trade requirements only and for reasonable personal or domestic purposes. The Imperial Bank was authorized to allocate exchange for the defined purposes. The selling price was fixed at *1s. 5-49/64d.* sterling as before. The rupee was thus linked to sterling in spite of resentment on the part of Indian opinion. One consequence of this link was that the rupee began to depreciate along with the sterling in terms of gold and currencies of countries still on gold, *e g.*, America and France. This resulted in the rise in the rupee price of gold and that metal began to flow out of the country.[1] The Government took no steps to stop this outflow.

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[1] Economists are not agreed as to the cause of the outflow of gold from India. The generally held popular opinion is that the outflow of gold was due to the rise in its price in terms of rupees when the rupee (along with the sterling) depreciated in terms of gold after September 1931. But a mere rise in price of gold would not have caused an outflow of gold if this rise was exactly counterbalanced by the depreciation of the rupee in the exchange market. It is held by some, therefore, that it was the external undervaluation of the rupee that made it worth while to export gold which meant that the rupee price in India rose to a lesser degree than the depreciation in exchange. Dr. Dey, however, is of opinion that the explanation, though correct in a narrow technical sense, is not adequate, because if undervaluation of the rupee had been the main cause, gold exports would have increased as years advanced instead of decreasing, since India showed a progressive depreciation of the rupee in terms of sterling. Dr Dey explains the export of gold as follows: "There was acute economic distress among the peasants and the zamindars due to disastrous fall of agricultural prices, which led to their savings in the form of gold hoards being drawn upon on a large scale. But (a) due to the ignorance of the villagers about the world price of gold, (b) pressure of intensive propaganda on the part of bullion dealers in the up-country centres causing quick dishoarding, and (c) distress sales, the internal price of gold at which it was bought by the bullion dealers was low as compared with the world price. Consequently the export of gold became highly profitable for the bullion dealers. On the other hand, as economic conditions gradually improved due to the rise in prices and increase in exports, the distress was mitigated, dishoarding of gold declined, the disparity between internal and external prices of gold became less and less, and gold exports began to diminish, even though the depreciation of the rupee in terms of sterling and gold remained great or kept on increasing........." "Had a rise in Indian prices of gold and commodities," he continues, "been brought about by a proper degree of inflation, the rupee's internal overvaluation would have been checked," and its external

The policy of the Government in this connection has been criticized on three grounds : (*i*) linking the rupee with the sterling instead of gold; (*ii*) still keeping to the 1*s*. 6*d*. ratio; and (*iii*) taking no steps to stem the outflow of gold. These points demand consideration.

5. The Sterling Link. The linking of the rupee with the sterling was criticized on various grounds. First, that the rupee was thus made to share the fluctuations of the sterling, the latter reflecting the conditions in Britain and not in India. Secondly, though India's export trade with the gold standard countries would be encouraged, on account of the depreciation of the rupee in terms of gold, it would discourage Indian imports from these countries, while England would enjoy a sort of an Imperial Preference in the Indian market. Thirdly, that the sterling link would bring India back to the gold standard[1] when Britain decided to bring sterling back to gold, irrespective of the economic conditions in India. Finally, that the rise in the rupee price of gold would lead to gold exports from India, as it actually happened.

The Government, on the other hand, justified the sterling link and supported their policy by the following arguments :—

(*i*) It was better from the point of view of stability to link the rupee with sterling than to let it drift. (*ii*) India had at the time £32,000,000 sterling obligations and a sterling loan of £15,000,000 was maturing early in 1932. If the rupee was not linked with the sterling the difficulties of raising funds for these payments would have been insuperable. (*iii*) Being a debtor country, India could not afford to risk the rupee being left alone. (*iv*) A considerable proportion of India's foreign trade was with England or countries on sterling. It was wise, therefore, to secure a stable basis at least for this trade. (*v*) Depreciation of the rupee in relation to gold would give a welcome stimulus to India's export trade with gold standard countries.

If the sterling link was not adopted there were two other alternatives open to the Government: (*a*) to adopt the gold standard, (*b*) to keep on an independent standard. India could not have maintained the gold standard for long. Only a country like America with an abnormally large gold reserve could do it. Within a few years, like the gold bloc countries (*e. g.*, France), India would have been forced off the gold.

At a time when there was a mad rush for gold, it would not have been easy to maintain the convertibility of the rupee into gold. Deflation would have accentuated depression. Moreover, so long as sterling depreciated in terms of gold, the fixed ratio

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undervaluation, in terms of gold and the pound sterling largely eliminated, and gold exports would have been minimized." Dey, op. cit. pp. 237-38.

[1] The preamble of the Reserve Bank Act makes the position clear in this respect. It lays down that the sterling Exchange Standard is only provisional arrangement. When normal monetary conditions are restored in the world the Reserve Bank will put forward a scheme for a permanent monetary standard for India.

of the rupee in terms of gold would have meant fluctuating ratio in terms of sterling. This would have been a disturbing influence on our trade with sterling countries.

On the other hand, it is doubtful if India would have succeeded in managing an independent standard in view of her position as a debtor country with large foreign obligations, her export trade exposed to various restrictions in other countries and her lack of a proper central bank. Free and independent rupee would have meant an unstable exchange, and this would have involved risk and inconvenience for the Government in paying off her sterling obligations. In a period of chaotic currency conditions, therefore, maintaining the sterling link was perhaps the lesser evil especially when a substantial position of India's trade was with the sterling bloc. The situation, however, entirely changed subsequently and the gold link was given up in 1947 as we shall see.

6. **Gold Exports.** Between September 1931, when England left the gold standard, and January 1940, India exported gold to the value of Rs. 351·4 crores. The net imports of gold into India from 1910-11 to 1930-31 were of Rs. 457·86 crores. Thus in about eight years India lost four-fifths of the gold that she had imported in 21 years.

As sterling was depreciating in terms of gold and the rupee was linked to sterling, the price of gold rose correspondingly. The abnormal rise in the price of gold induced the people to sell gold. Those who were driven by economic necessity began selling gold more freely. This only explains why the holders of gold sold it. But why was it exported ? This was due to the difference between the rupee prices and sterling prices, the latter being higher.

The Indian opinion urged the Government, when the gold exports began, to take measures to stop this outflow of the precious metal. The Government did nothing of the kind and supported their inaction on the following grounds :—

(*i*) Gold exports are a normal feature of a country's trade and there is nothing abnormal about it.

(*ii*) Gold exports have improved the credit of the Government, enabled it to stabilize exchange by purchase of sterling at favourable prices, and made it possible for her to pay off £15 million of her sterling debt and to reduce their floating debt in India by creating fresh currency required to pay for the gold.

(*iii*) Gold exports (by keeping up the price of gold) have strengthened India's public reserves, the market value of which increased by five crores of rupees.

(*iv*) By sale of gold the agriculturists have been able to live on their reserves through difficult times, making huge profits in the bargain.

(*v*) Gold exports have stimulated international trade by enabling

India to buy more of foreign goods, thus increasing the purchasing power of her potential customers.

On the other hand, the critics of the Government alleged that (*i*) the exports of gold have meant "the wastage of India's gold resources, the wreckage of the indigenous banking system and a drain on the accumulated savings of generations ;[1] (*ii*) that it had concealed the fact that the rupee was overvalued at 1*s*. 6*d*. by enabling the Government to maintain the ratio at that point ; (*iii*) that the loss of gold had made it impossible for India to reach her goal of a gold standard, and that it would be difficult to make up this loss ; (*iv*) that almost every other country was sitting tight on their gold resources while India was losing them; (*v*) finally that the exported gold was "distress gold" and people were merely living on their capital, a process which could not continue for long.

It was suggested that the Government should purchase this gold either herself or should make the Reserve Bank of India purchase it in order to strengthen its gold reserves. Some suggested an embargo on the exports of gold and other heavy export duty. To the suggestion of a duty on gold export the Finance Member pointed out (1936) in the Assembly that the burden would ultimately fall on the agriculturist-seller of gold through the fall in its price. As regards the buying of gold in unlimited quantity by the Reserve Bank of India on behalf of the Government, it was pointed out that it would mean speculation in gold, as the buying rate would have to be fixed with reference to the fluctuating dollar-sterling cross-rate. "It is true," wrote Dr. Dey, "that both the U.S.A. and the United Kingdom have accumulated large gold reserves at high costs during the depression. But all students of recent monetary conditions know that it has now (1938) become a grave problem for these two countries to decide what should be done with these costly gold stocks."[2] Britain, however, had to disburse her gold resources to finance the present war. If the Reserve Bank had taken the risk of purchasing gold at that time it would have made enormous profits now that the price of that metal has risen so much.[3] For this reason and others given in the previous paragraph we do not agree with Dr. Dey when he says that "the policy that has been actually followed by the Government of India with regard to gold has been the wisest under the circumstances of the case."[4]

7. The Case for Devaluation. From the time the Government enforced the 1*s*. 6*d*. ratio under the Currency Act, 1927,

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1. Jathar and Beri, Indian Economics, Vol. II, p. 372.
2. Economic Problems of Modern India, op. cit. p. 240.
3. The price of gold in August 1931 was Rs. 21-13-3 per tola; by December 1931 it was Rs 29-2-0 ; by March 1935 it was Rs. 36-13-3, by September 1937 it was about Rs. 37; by December 1940 it reached Rs. 42 per tola ; in November 1944 it was Rs. 68 per tola ; in November 1945 it was Rs. 82 per tola, and now (May 1946) Rs. 108 per tola.
4. Dey, op. cit. p. 241.

vocal public opinion in India continued pressing for its revision.[1] In fact the case for revision was very strong indeed until World War II broke out and changed the whole situation. The case for devaluation of the rupee, as it was put from time to time between 1929 and 1939, may be summarized as follows:

(i) The rupee was all along overvalued at the rate of 1*s*. 6*d*. and the Government was able to maintain the rate by drastic deflationary measures: (a) by contracting currency—between 1926-27 and 1930-31 currency was contracted to the extent of Rs. 1,021 crores; (b) by raising the lending rate to the Imperial Bank of emergency currency under the Act of 1923; (c) by the sale of sterling and depleting the sterling resources of the Reserve Bank

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[1] When the depression appeared after the autumn of 1929 the agitation for revision of the ratio increased, especially when it was found that the Government was finding it difficult to maintain the rate at 1*s*. 6*d*. on account of the great fall in our export surplus. It was again urged, at the time of the linking of the rupee to sterling at the old rate, that the case for revision was strong. The question was again raised at the time when the matter of the proposed Reserve Bank's exchange obligations was being discussed by the London Committee on the Reserve Bank, then by the Joint Select Committee (1943) and again when the Reserve Bank Bill came before the Assembly. The ratio clauses (40 and 41) finally embodied in the Act gave effect to the recommendation of the London Committee that the existing ratio should be preserved, but that the whole question of the monetary standard suited to India should be reviewed when the international situation clarified itself and became sufficiently stable to make it possible to frame more permanent provision. This arrangement, however, did not satisfy Indian opinion. In August, 1935, Mr. Manu Subedar (President, Indian Merchants' Chamber and Bureau, Bombay) in welcoming Sir James Grigg (then Finance Member) suggested to review the ratio with a view to giving relief to the cultivator. To this the latter replied that he would be "no party to any monkeying with the present ratio," that the change would not help the agriculturist and might lead to worsening of his position.

The controversy flared up again early in October 1936, when the franc and other currencies of the gold bloc were devaluated. The Government was urged to devaluate the rupee, which would raise prices of primary produce, review export trade and obviate export of gold. The Government spokesmen argued that devaluation at that juncture would constitute a breach of the Tripartite Monetary Agreement (of 1936) signed by the U.K., the U.S.A. and France. Moreover, they said that the sterling link had already devaluated the rupee by about 40 per cent. in relation to gold. Further, that devaluation might provoke retaliation from competitor countries.

In 1938 again there was agitation for devaluation on account of weakening of exchange in June of that year. The Congress Working Committee took up the question. The Government in a *communique* issued on June 6, 1938, declared their satisfaction with the existing ratio. In September 1938, an unsuccessful attempt was made by some unofficial members of the Central Legislature to secure the appointment of a committee to report on the ratio question. The balance of trade and exchange improved during the succeeding months and on December 16, 1938, the Government issued another press *communique* repeating their decision to maintain exchange at 1*s*. 6*d*. as before. Exchange remained steady on the whole during 1939 up to the outbreak of the war, which entirely changed the situation.

(Issue Department). The result of this deflationary policy was disastrous for Indian agriculture and industry especially, the former, during the depression years from 1929 onwards.

(ii) That the rupee was overvalued at 1*s*. 6*d*. was indicated by the various symptoms and criteria of overvaluation accepted by economic theory and practice, such as (a) the sagging prices, (b) industrial stagnation, (c) unfavourable terms of trade, (d) almost disappearance of export surplus.

(a) Between 1928 and 1933 Indian prices fell to a larger extent (40 per cent.) as compared with British prices (36·4 per cent). And by 1936 while English prices recovered by 16·3 per cent. Indian prices only recovered by 5·7 per cent. Thus Indian prices fell more and rose less during the period.

(b) Industrial stagnation was shown by figures of aggregate profits of certain industries. These profits fell from a total of Rs. 10·9 crores in 1928 to Rs. 2·6 crores in 1931 and rose slowly only to Rs. 5 crores in 1935.

(c) The barter terms of trade were also unfavourable to India during this period. This is shown by the fact that the prices of her exports fell to a greater extent than those of her imports. Between 1927-28 and 1933-34 while the index number of export prices fell by 46·4 per cent., that of import prices declined only to the extent of 34·8 per cent.

(d) The merchandise export surplus also showed serious decline. The net export of private merchandise (excluding Government stores) were as follows during the depression years :

year	Rs. Crores	Year	Rs. Crores
1930-31	61·0	1935-36	29 8
1931-32	34 0	1936-37	77 1
1932-33	3·5	1937-38	15·4
1933-34	34·4	1938-39	16·8
1934-35	23·4	1939-40	47·8

(iii) In other countries, especially agricultural countries, the situation was met by their Governments by depreciating their currencies. The depreciation of the rupee in terms of gold that had occurred by linking the rupee with the sterling in 1931 was obviously not enough as was indicated by the tests given above. India was at a disadvantage with respect to her competitors the value of whose currencies had been considerably reduced. This is indicated by the following :—

Country	Value of currency in 1933 as percentage of their value in 1913.
Belgium	22·6
France	31·5
Greece	4·5
Italy	42 0
Portugal	4·5
Spain	68·0
Japan	50·0
U.S.A.	90 0
Australia	75·0
New Zealand	75·0

(iv) It was further urged that the real state of affairs was being obscured by the export of gold which was enabling the Government to maintain the rate at 1*s*. 6*d*. But gold export could not go on indefinitely. "Gold exports are at best only postponing the evil," wrote Dr. L. C. Jain. "When they cease, and it should not be very long before they cease, a situation of the gravest character will arise if things are allowed to drift in the mere expectation of international action leading to world prosperity."[1]

(v) Some people urged that the issue was not between the 1*s*. 6*d*. and 1*s* 4*d*. ratio. The issue was much wider. It involved wider aspects of policy. The anxiety of the Government all along the currency history of India since 1893 has been to ensure stability of exchange at one level or the other. It was urged that under the modern conditions of national economies the emphasis on exchange stability at the expense of the stability of economic life within the country is a wrong policy. A policy of flexible exchange is preferable, since by this method the relationship between costs and prices can be kept in equilibrium to ensure pofitable working of industry and agriculture. Such an exchange ratio is the really *natural* ratio for a country. England sought this natural level by depreciating the sterling in 1931. But the natural level of exchange for England is not necessarily the natural level for India.[2]

The higher ratio had undoubtedly intensified the depression and made it impossible for the Indian prices to catch up to world prices. There was certainly a strong case for devaluation to initiate a rise in prices for the benefit of the poor Indian agriculturist. Devaluation would certainly have lent the much-needed support to our exports and enabled us to maintain or strengthen our competitive position.

It has been urged that the agriculturist would have suffered by a rise in the prices of imported goods and the consumers too would have suffered. But imported goods do not bulk in agriculturists' consumption. Though the consumers would lose, yet they are expected to gain much more as producers, because devaluation would have enlarged production and increased opportunities for work.

In the words of Coyajee, "In fact the best proof of a well-chosen ratio consists of its harmony with a steady and moderate price level and a healthy and normal condition of imports and exports." The 1*s* 6*d*. ratio did not fulfil this test. The low prices associated with a higher ratio upset price cost parity, damaged production and increased unemployment. It also adversely affected distribution, straining the relations between debtors and creditors, landlords and tenants, employers and workers, etc. It is true that devaluation provides only a temporary stimulus. But when a country is emerging from the nadir of depression it requires just that temporary stimulus to put it on the way to recovery.[1]

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[1] L. C. Jain :—Monetary Problems of India, p. 15.

[2] For an excellent exposition of this thesis read article by B.N. Ganguli in Economic Problems of India, pp 273-324. Also read his "Whither Rupee ?"

There was thus a strong case for devaluation.

But the Government refused to have any "monkeying" with the exchange as the Finance Member, Sir James Grigg, put it. Then came the war and the whole outlook changed.

8. The Reserve Bank as Currency Authority. In the meantime from April 1, 1935, the control of currency had passed from the hands of the Government to the new central bank—the Reserve Bank of India—to whom were transferred the Paper Currency and the Gold Standard Reserve This removed two defects[2] of the Indian currency system pointed out by the Hilton Young Commission, *viz.*, duplication of reserves and division of responsibility for the control of currency and credit. The evolution of our paper currency system will be studied in the next chapter and the system of credit in a subsequent chapter in connection with banking. Here something may be said about the role of the Reserve Bank in the maintenance of the sterling Exchange Standard as long as it lasted.

The Reserve Bank was required to maintain the 1*s.* 6*d.* sterling ratio by buying and selling sterling at specified rates. Clause 40 of the Reserve Bank Act required the Bank to sell sterling to any person who made a demand in that behalf at its office in Bombay, Calcutta, Delhi, Madras or Rangoon and paid the purchase price in legal tender currency, for immediate delivery in London at a rate not below 1*s.* 5-49/64*d.* for a rupee. This provision was intended to prevent the rupee from falling below 1*s.* 5 49/64*d.* (this was obtained by deducting from 1*s.* 6*d.* the cost of buying down in London this amount). Clause 41 made it necessary for the Bank to buy sterling from any person who made an offer in that behalf at its office in Bombay, Calcutta, Delhi, Madras or Rangoon, for immediate delivery in London at a rate not higher than 1*s.* 6 3/16*d.* for a rupee (this was found by adding to 1*s.* 6*d.* the cost of transporting this amount from London to Bombay). These two points[3] corresponded to the lower and upper specie points under the Gold Standard.

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[1] Malhotra, D. K—History of Problems of Indian Currency and Exchange, 1947, pp 108-109.

[2] Certain anomalies, however, still remain. The rupee coin (a note printed on silver as it has been called) continues to be full legal tender, and it is obligatory on the part of the Reserve Bank to exchange notes for coins and *vice versa*, on demand. The issue of coins requires no reserve backing and there is no limit to their issue. The monopoly of issue of notes also rests with the Government, the Reserve Bank being merely a channel of issuing them.

[3] Under the pre-war system, it will be remembered, the exchange used to be maintained by sale of Council Bills by the Secretary of State in London and the Reverse Councils in India at the upper and lower specie points respectively. This system was modified in 1923-24. In that year while weekly sales of Council Bills continued as before, the sale of 'intermediates' (Bills sold in between the regular sales of higher rates) was stopped and was replaced by purchase of sterling in India from banks and financial houses willing to sell it. In 1924-25 this system was further extended and the purchase of sterling

Thus the Reserve Bank Act legalized the existing ratio. The preamble to the Act, however, incorporated the recommendation of the London Committee on the Reserve Bank Legislation, that the question of the monetary standard best suited to India should be considered when the international monetary situation had become sufficiently clear to make it possible to frame permanent measures. When such a contingency arose Clause 55 of the Act required the Bank to report its views to the Governor-General-in-Council as regards the suitable permanent basis for the Indian monetary system and to frame measures for the future monetary standard of India. The date for the adoption of such new measures was postponed by World War II.

Indian Paper Currency.

9. **Paper Currency up to 1925.** Notes were practically unknown in India until the beginning of the 19th century. In 1806 the Bank of Bengal was founded and given the privilege of issuing notes. This privilege was also conferred on the Bank of Bombay (1840) and the Bank of Madras (1843). Although these banks were private institutions yet the Government had a share in the capital and was represented on the management. A maximum limit of note issue was fixed for each bank, and they had to keep a reserve of 33⅓% (later reduced to 25%). These notes were not legal tender, and were popular in the presidency towns only.

In 1861 the Government took over the note issue from the Presidency Banks. The country was divided into circles. and the notes issued in the circle were legal tender only in the circle. The notes were issued on the currency principle embodied in the Bank Charter Act of 1844 passed in England. The fiduciary portion of the Paper Currency Reserve was fixed at Rs. 4 crores. Over and above this limit, metallic reserve of equal value had to be kept.

The above arrangement was excellent from the point of view of the security of note issue but it was neither convenient nor did it provide elasticity in the note issue. The inconvenience arose from the restricted area within which the notes were legal tender and convertible. This defect was, however, removed when notes of one denomination after another were universalized.

The note issue was inelastic, because beyond a certain limit cent per cent metallic reserve was necessary. Some elasticity was imported by raising the fiduciary limit from time to time, until it stood at Rs. 14 crores in 1914 and Rs 120 crores in 1919. Some elasticity was also given by making the rupee a token coin in 1893 so that less silver was needed for the reserve in the form of new rupees.

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in India became the principal method of remittance and sales of Council Bills were undertaken only to meet a steady and continuous demand by them. There was no sale of Council Bills in 1925-26 and the system was suspended thereafter. At the recommendation of the Young Commission the system of purchase of sterling by competitive tenders was suspended. From April 1, 1935, this function was transferred to the Reserve Bank.

The Paper Currency Reserve, originally consisted of silver coin and bullion as regards the metallic portion, and the Government of India rupee securities as regards the fiduciary portion. Subsequent legislation, however, permitted the holding of gold coin and bullion as well as Sterling Securities as part of the Indian Paper Currency Reserve.

The main defects of the currency system were :—(1) It was not automatic, because the fiduciary portion could be increased only by fresh legislation every time. (2) The metallic portion of the reserve was unduly large. (3) A part of the reserve was kept in London instead of in India. (4) There was a divorce between currency and banking, whereas integration is the rule in modern times. (5) In the absence of a central bank, the Government was compelled to keep its funds locked up in "Reserve Treasuries" creating financial stringency in the money market in the busy season. (6) Above all, the currency system was inelastic. In other countries, bank deposits and cheques as well as notes issued against commercial bills lend elasticity to the currency system. Also, the Government funds being placed in the central bank are made available to the trade. But in India banking was comparatively undeveloped, oraganized bill market was practically non-existent, and the central bank had not yet come into existence.

The Chamberlain Commission, with a view to introducing a further measure of elasticity, recommended that the fiduciary portion should be fixed as under:—

Notes held in Reserve Treasuries plus ⅓rd of the net circulation *i.e.* (gross circulation minus notes held in Reserve Treasuries).

The Commission further recommended that the use of notes should be encouraged and facilities for encashment should be extended. The idea of the Commission was to make note issue both elastic and popular.

The war (1914-18) put a great strain on the Indian paper currency system. There was a rush for conversion of notes, and notes worth Rs. 10 crores were returned during the first eight months of the war. The fiduciary portion was increased from Rs. 14 crores in 1914 to Rs. 120 crores in 1919. New notes of Re 1 and Rs. 2½ were issued. Extra legal facilities for encashment of notes were discontinued.

At the end of the war, the Babington Smith Committee examined the Indian currency system. In order to impart elasticity and to ensure adequate metallic reserve, the Committee recommended that the metallic portion of the reserve should be at least 40% of the gross circulation, and, over and above the normal fiduciary issue, provision should be made for the issue of additional currency up to Rs. 5 crores in the form of loans to the Presidency Banks against export bills. It also recommended the removal of war-time restrictions on the encashment of notes. The Government passed legislation to give effect to these recommendations.

10. Hilton Young Commission. The Hilton Young Commission of 1926 recommended the establishment of a Reserve Bank to which the sole right of note-issue was to be transferred. The obligation to convert notes into silver coins was to be withdrawn. The Paper Currency Reserve and Gold Standard Reserve were to be amalgamated and the proportional reserve principle of note-issue was to be introduced.

The establishment of Reserve Bank was delayed until 1935. A Paper Currency Act was passed in 1927 according to which sterling securities in the Paper Currency Reserve were re valued at Rs 13-1-3 to a sovereign. No other change was effected.

11. The Reserve Bank as the Issuing Authority. The Reserve Bank Act, which was passed in 1934, gave the sole right of note-issue to the Reserve Bank of India which started its operation from the 1st of April, 1935. The note-issue function of the Bank was to be performed by its Issue Department.

The Gold Standard and the Paper Currency Reserves were amalgamated and the entire gold stock was transferred to the Bank which the Bank was to keep in its Issue Department.

The assets of the Issue Department were to consist of gold coin, gold bullion, sterling securities, rupee coins and rupee securities. Of the total assets not less than 40 per cent had to consist of gold coin, gold bullion or sterling securities, provided that the amount of gold coin and gold bullion was not at any time to be less than Rs. 40 crores in value. With the previous sanction of the Central Government, however, the Bank might hold gold coin, gold bullion or sterling securities of less than 40 per cent of the assets for limited periods provided that it paid a specified tax on the deficiency. In actual practice, however, the bank maintained a much higher percentage of gold and sterling securities against its total liabilities in the Issue Department.

12. Expansion and Contraction of Currency. Under the Reserve Bank Act the assets of the Issue Department, as we have seen, were kept in the form of—

(*i*) rupee coin including rupee notes ;

(*ii*) gold coin and bullion ;

(*iii*) rupee securities, including treasury bills ; and

(*iv*) sterling securities.

Expansion of currency could be effected by increasing any of these forms of assets and issuing notes of equal value from the Issue Department. Contraction of currency was similarly effected by withdrawing notes from circulation and reducing any of the assets. "Ordinarily in the case of expansion the Bank increased the assets of the Issue Department by transferring rupee or sterling securities or both from the Banking to the Issue Department or by creation of *ad hoc* treasury bills ; and in the case of contraction, reduced the assets by transfering securities, rupee or sterling, or both, from the Issue to the Banking Department, or by cancellation of *ad hoc* treasury bills held in the Issue Department."

An enormous expansion of note circulation took place during the war. These notes were issued against sterling securities accumulated due to the circumstances arising out of the war. The total notes in circulation when the war broke out in September, 1939, were of Rs. 182 crores. On the 3rd of August, 1945, the figure stood at Rs. 1,133 crores, an increase of about Rs. 951 crores. The increase in sterling securities during the same period was to the value of Rs. 975 crores.

The effects of World War II on the Indian currency system are discussed in the next chapter.

CHAPTER XXX

INDIAN CURRENCY AND EXCHANGE DURING WORLD WAR II AND AFTER

During The War

1. Introduction. The outbreak of World War II in September, 1939, threw the old currency problem into the background and created new ones. The most outstanding currency problems of the war related to exchange control, enormous increase in the volume of currency and consequent rise in prices, war finance and accumulation of sterling.

2. Effects on Currency. The main effects of the war on currency were: (i) Rush for the conversion of notes, and consequent (ii) rationing of rupees, (iii) issue of one-rupee and two-rupee notes, (iv) issue of new eight-anna pieces, (v) issue of new rupee coins of smaller silver content, (vi) withdrawal of old standard rupees and (vii) the enormous expansion of the circulating media. The demand for conversion of notes, which prior to June, 1940, was less than a crore of rupees per week, increased to Rs 4 crores per week. The stock of rupees in the Issue Department of the Reserve Bank decreased from Rs. 75.47 crores at the beginning of the War to Rs. 32 crores by July 5, 1940. It was, therefore, declared an offence to acquire coins in excess of personal or business requirements. There was an acute shortage of rupee coin and small coinage. These difficulties were, however, overcome by the Reserve Bank and arrangements were made to meet the reasonable requirements of the people in this connection.

To meet the scarcity of rupees, the Government issued one-rupee notes on June 24, 1940. These notes were not convertible into rupee coins. In February, 1943, two-rupee notes were also issued.

New half-rupee coins were issued in 1940 to meet the growing demand for 4-anna and 8-anna pieces. To prevent their hoarding and to economise silver, the silver content of these coins was reduced from 11/12 to 1/2 fine. In the same year new rupee coins were issued containing 90 grs. of pure silver and 90 grs. of base metal, having a security edge device as a safeguard against counterfeiting. Queen Victoria rupees and half-rupees ceased to be legal tender after 31st March, 1941, King Edward VII rupee and half-rupees after 31st May, 1942, and King George V and King George VI standard rupees and half-rupees after 31st May, 1943. Thus standard silver coins of 11/12 fineness were progressively replaced by quarterney coins of ½ fineness.

But the most outstanding effect of the war was the enormous expansion in the circulating media with its attendant consequences. To this we shall devote a separate section and also to other developments during the war.

3. Exchange Control.—We have seen in a previous chapter that during the decade before the outbreak of the present war the Government found it difficult to maintain the rupee-sterling rate at 1s. 6d. It was accomplished partly by contraction of currency and partly on account of the export of gold after 1931. The chief cause of the difficulty was the serious falling off in our export surplus during the period of acute agricultural depression. With the outbreak of the war export surplus revived on account of considerable export of war materials from India purchased on behalf of His Majesty's Government. The Reserve Bank was consequently able to buy sterling in large amounts and there was no difficulty in maintaining the rate at the statutory level of 1s. 6d.

While the rupee remained, on the whole, firm in relation to sterling, it depreciated in relation to the dollar, yen and the Continental currencies following the slump in the sterling. With the pegging of sterling to the dollar at 402 the rupee-dollar exchange became steady (at about 332 per 100 dollars).

Following Great Britain, the Government of India also undertook to control exchange. Under the Defence of India Ordinance of 1939 (Part XIV) the Government was authorized (*i*) to impose restrictions on purchase of foreign exchange, (*ii*) to acquire foreign exchange ; (*iii*) to impose restrictions on purchases and export of securities ; and (*iv*) to acquire foreign securities. Accordingly the Government required that all foreign exchange transactions should be put through authorized dealers controlled by the Reserve Bank through its newly created Exchange Control Department.

For purposes of exchange control, the Empire was regarded as a single currency unit and was called the sterling area. No restrictions were put on the free transfer of funds within this area. The purchase and sale of currencies outside the sterling area were subject to rigid control.

No remittances were allowed to any country outside the sterling area unless the remitter filled in an application form stating the purpose for which the remittance was required. Remittance might be required for : (*i*) payment for imports—this was allowed provided the applicant produced customs entry forms as evidence that the goods had been imported into India ; (*ii*) petty private remittances ; (*iii*) travelling expenses—these were allowed up to a certain limit only ; (*iv*) other trade purposes (freight, profit, royalties)—for these applicant had to submit certificates from Chartered Accountants or other suitable evidence of their being *bona fide* payments ; (*v*) capital remittance—these were only permitted in exceptional circumstances and had to be referred to the Reserve Bank of India. The objects of these regulations were to ensure that foreign exchange was only sold for the finance of trade and for a few other approved purposes. They were designed to prevent any flight of capital and to make speculative operations in exchange impossible.

Import Control. At first banks were given considerable latitude in the sale of foreign exchange. But as the war advanced their privileges had to be curtailed. Subsequently they could only sell exchange, without prior reference to the Reserve Bank, for making payments for licensed imports and a few private remittances. A rigid control on imports was instituted. No import was allowed from outside the sterling area without licence.

Export control. With the development of exchange control it was found necessary to institute control on the proceeds of exports from India to countries outside the sterling area. The Reserve Bank, therefore, instituted an Export Control Scheme. "The objects of the export control scheme are to ensure, first, that the foreign exchange proceeds of exports are returned to India and not retained abroad, and secondly, that exports are financed in certain specified ways so that the maximum exchange value is obtained.

The balances accruing to Indians (and other citizens of the Empire countries) in the United States had to be handed over to the British Government and constituted the "Empire Dollar Pool," to be utilized for purposes of war.

Control on bullion securities and foreign currencies. In addition to ordinary commodities control was also exercised over the export and import of bullion, securities and currency notes. Export of gold could only be made under licence Imports of gold were licensed, but were freely permitted provided they did not involve the expenditure of any important currency, especially dollars.

As regards securities these could not be acquired from any person not resident in India, nor could they be exported without the permission of the Reserve Bank. For export of foreign securities licence was required which was only allowed if the foreign exchange proceeds were surrendered to the foreign agents of a bank in India.

Restrictions were also placed on the taking of jewellery and cash out of India. A specified minimum could be taken out without licence, but beyond that a licence had to be taken from the Exchange Control Department of the Reserve Bank.

Currency notes could not be imported from countries occupied by the enemy. This was to prevent the enemy disposing of their large holdings of notes captured in invaded countries. Provision, however, was made to encash notes in possession of *bona fide* evacuees from the occupied areas.

4. War-time Absorption of Currency—"Among the various war-time developments in the sphere of Indian currency, the enormous expansion of currency overshadowed all others by its spectacular character, its wide sweep and its direct impact on the daily life of the common man."[1] On the 1st of September, 1939, there were Rs. 182·13 crores worth of currency notes (issued by th Reserve Bank) in active circulation[1] in India. On the 19th c October, 1945, this figure stood at Rs. 1159·85 crores. This mean an increase of Rs. 977·72 crores or over 536 per cent.

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[1] Malhotra, D.K.—History and Problems of Indian Currency and Exchange, 1947, p 122.

From September, 1939 to August, 1945, the total absorption c rupee coin amounted to Rs. 142·16 crores, and of small coin Rs. 67 59 crores.

There was also an increase in bank deposits, which in the cas of scheduled banks (only their figures are available) amounted t Rs. 460 crores from the beginning of the war up to 31st March 1945

Thus during the whole period of the war the total increase i circulation was Rs. 1,198·64 crores. Of this increase 82·5 per cen was due to the increase in the note issue, 11·9 per cent to rupee coi and 5·6 per cent to small coins.

There was, however, a decline in the velocity of currenc circulation due to increased propensity of hoarding engendered b the danger of the war. The public, the banks and the busines concerns were all anxious to maintain a highly liquid position But this decline in the rapidity of currency circulation was to feeble to blunt the edge of currency inflation.

5. **The Rise in Prices.**—Side by side with this expansion o currency there was an enormous rise in the general price level, a shown by the table given below :

INDEX NUMBER OF WHOLESALE PRICES IN INDIA

(Week Ending 19th August, 1939=100)

Year		Agricultural commodities	Raw materials	Manufactures	General index
1939-40	...	127	119	131	126
1945-46	...	273	210	246	245

There was a close relation between rise in prices and expansion of currency. The following quarterly indices indicate this close association :—

JULY 1939=100

(All Figures Refer to the First Quarter of Each Year)

	1940	1942	1943	1944	1945	194
Notes in circulation	...132	204	356	505	613	70
Wholesale prices	...125	154	258	299	301	29
Demand deposits	...105	167	273	390	455	58

6. **Accumulation of Sterling Assets.**—We have seen in a previous chapter that before the Reserve Bank could expand its note issue the assets of the Bank in the Issue Department had to be increased. In fact, such an increase in the assets did take place, as is shown by the following figures showing the changes in the assets of the Issue Department under the various heads :

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[1] Active Circulation=Total notes issued minus notes held in the Banking Department.

Decrease (—) or increase (+) over the figures of 1-9 1939 on 31-8-45.

		Rs in crores
1.	Gold coin and bullion ..	Nil.
2.	Sterling Securities	+974·8
3.	Rupee Coins	− 58·4
4.	Rupee Securities	+ 20·5
5.	Total Assets	+936·9
	Total Notes issue	+936·9

It is clear that most of the expansion of currency occurred against sterling securities. These securities represented investment in the form of sterling in London. This money, in other words, was lent by India to England.

How did India get these sterling resources, and why were they kept in London in this form ? To understand this, it is necessary to explain the system of financing supplies purchased on behalf of His Majesty's Government in India by the Indian Government.

7. **Mechanism of War Finance**.—Some money was spent by the Government of India on behalf of India for war purposes. This money was shown in the regular budget of the Government under expenditure for defence. This was partly raised by taxation and partly by loans of various kinds. Apart from this, the Government of India spent every year considerable money on behalf of His Majesty's Government and other Allied Governments for the purchase of the various kinds of war supplies. For these supplies His Majesty's Government made payments in the form of sterling in London. This sterling was partly used for the payment of Home Charges and partly it was used for repayment (or repatriation) of India's sterling debt and the rest was loaned to the British Government. The British Government's I.O Us. or sterling securities were kept in London as assets of the Reserve Bank of India. In the first instance they appeared as assets of the Banking Department, but were transferred to the Issue Department as need for rupee finance arose. Against these assets, as the law allowed, notes were issued in India. These notes were used by the Indian Government to purchase war supplies mentioned above. It was thus that currency expansion occurred in India.

But all the sterling that was invested in sterling securities did not come in the possession of the Reserve Bank in this way. Part of it was purchased by the Reserve Bank of India from those who imported goods from India and wanted to make payments in rupees to Indian exporters. Below are given details of the various sources of sterling and the way the stock of sterling was utilized :—

		Rs. in crores
1.	Sterling assets of the Reserve Bank, August, 1939 ...	64
2.	Sterling purchased by the Bank, September, 1939 to March, 1946 ...	813
3.	Sterling payments by His Majesty's Government ...	1632
4.	Other sterling credits ...	45
	Total received ...	2554

1.	Sterling utilized for debt repatriation[1] up to the end of March, 1945.	...	411
2.	Sterling commitments of Government	...	344
3.	Sterling sales to public	...	75
4.	Sterling holding of the Reserve Bank at the end of March, 1945.	...	1724
	Total	...	2554

8 Rupee Securities.—Currency expansion took place not only on account of the increase in sterling securities but, as we have already seen, also on account of the increase in rupee securities. Previously under the Reserve Bank Act these securities could not be held in value of more than Rs. 50 crores But by an Ordinance of February 1941 this limit was abolished. This enabled the Government to borrow from the Reserve Bank (through the issue of notes) against its Treasury Bills or I.O.U.s. Some of these rupee securities were substitutes for the sterling securities held by the British creditors before the debt was repatriated. In so far as the sterling debt was paid through internal borrowing from the public, no expansion of currency took place.

9. Inflation Controversy.—The enormous expansion of currency and the rise in prices in 1943 led to the controversy[2] whether this phenomenon could be regarded as inflation. One view represented by the Finance Member of the Government of India, the late Governor of the Reserve Bank and a few others was that there was no inflation in India. The other view held by most of the Indian economists and non-official public men was that a very dangerous form of inflation had developed in India and, if left unchecked, would bring disastrous consequences to our national economy.

Those who denied the existence of inflation in India based their opinions on the following grounds : (*a*) That notes were being issued against sterling securities as provided by the Act, hence there could be no over-issue ; (*b*) that as long as all the resources of the country were not fully employed, additional note-issue could not lead to inflation. (*c*) the rise in prices was due to scarcity of goods needed for civilian consumption due to diversion of resources for purposes of war. Therefore the real remedy was to increase the production of such goods. The rise in prices of foodstuffs was partly due to the stoppage of imports of rice from Burma, but was also due to hoarding, profiteering and lack of transport facilities. The remedy was to stamp out hoarding, control prices and profits and to make transport facilities more efficient ; (*d*) that the increase in currency was a result, not a cause, of high prices, high prices being due to scarcity of supply in relation to demand.

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[1] As regards the method of sterling debt repatriation, see the appropriate section in the chapter on India's Public Debt. Here it may be noted that the accumulation of sterling resources enabled India to reduce her sterling debt from Rs. 469 crores in 1938-39 to Rs 37·4 crores by the end of 1945-46. To this extent the English creditors were paid off Some of this debt was transferred to Indian creditors by internal borrowing by the issue of rupee securities (rupee counterparts) to the public. Some was taken up by the Reserve Bank. Hence the increase in rupee securities with the Bank

[2] If inflation is to be defined as an expansion of the purchasing power due to borrowing from the central bank to meet a budgetary deficit, then inflation in this sense does not exist in India. On the other hand if inflation is to be defined as a state of affairs arising out of the failure to meet the whole of the expenditure of the Government of India and of the Allied Governments by means of loans and taxes raised in India, then inflation may be said to exist, since a certain proportion of the rupee resources required to finance the war costs, in this wider sense, has been obtained by the sale of foreign exchange to the central institution.—Sir Theodore Gregory.

10. It was Inflation.—The real truth was that the war-time rise in prices was due to inflation. All the arguments given to prove that there was no inflation in India contained a certain amount of truth in them, and that was why confusion arose. Let us examine them.

(*a*) It was true that if goods could move freely into and out of India, issuing of notes against sterling securities would not have caused over-issue. Sterling securities would not have accumulated to this extent with the Reserve Bank. Goods exported from India would have been paid to a large extent by imports into India which could not come due to conditions of war and exchange control. Merely the existence of sterling securities 6,000 miles away could not prevent the rupee from depreciating in terms of goods in India when such goods did not increase as fast as the means of purchasing them.

(*b*) The theory that so long as the resources of a country are not fully employed additional currency does not cause inflation is true only under the assumption that these resources can be fully employed within a reasonably short time. India's potential resources may be enormous. But the point is, could they be fully employed within a reasonably short period ? It would appear that to the extent that such resources could be employed from the short period point of view they were already fully employed. The scope for further employment was extremely limited. In industry old firms had expanded. New plant and equipment was difficult to get. In agriculture the pressure on the soil was already great. Increase in the production of one thing (foodstuff) implies a decrease in the production of another (non-food crops). The optimum limit of employment had already been reached long ago. Additional currency thus caused inflation.

(*c*) Scarcity of particular goods might have led to a considerable rise in their prices. But when all prices were rising, the cause obviously was on the side of money rather than of goods. Issuing money first with the hope that supply of goods would increase was to court inflation. Goods at the most increased by about 20 per cent during the period of war. This was in spite of every effort to stimulate production. Currency, on the other hand, increased by over 530 per cent during the same period. Mere control of prices could not prevent inflation, even if price control had succeeded.

The increase in currency is a cause as well as a result of rising prices. Once the process of inflation starts it feeds on itself. More currency in circulation leads to higher prices ; higher prices demand more currency for making the same amount of purchases ; the new currency pushes the price still higher, and thus the spiral of inflation comes into existence. The initial drive usually comes, and in India it did come, through currency expansion.

" For all practical purposes," wrote Prof. Vakil at the time, "this operation (issue of notes against sterling received in London) is similar to the creation of artificial purchasing power by means of printing press by a Government in need, as was practised during the last war by several countries.[1] This was inflation because inflation is nothing more than a state of affairs when the volume of currency goes on increasing without being accompanied by a corresponding increase in production."[2] And this was what happened in India. From the point of view of the immediate present, the existence of sterling securities in London was entirely irrelevant.

11. Evils of Inflation—Inflation is a very serious disease for any country to have It leads to many economic and social injustices and is fraught with political dangers if left to follow its course. Its evils are many : (*i*) By raising prices it seriously curtails the purchasing power of the currency unit and thus brings untold hardships on people with fixed incomes. After the war of 1914-18 many families in Germany were ruined on account of inflation. Even if bonuses and allowances are given by the employers, they rarely compensate for the whole of the rise in the cost of living. (*ii*) Inflation ruins creditors because they receive in real goods only a small portion of what they had lent during the pre-inflation period. (*iii*) Inflation encourages hoarding of commodities by consumers and also by middlemen in expectation of higher prices in the future. This creates scarcity and distress if the commodities are essentials of life. The scarcity of foodstuffs prevailing in India was partly due to such hoarding. (*iv*) Inflation is a form of hidden taxation, but taxation of the worst kind, because it imposes higher burden on the people with lower incomes. The rich make money during the war and do not mind paying more for their purchases. The poor can hardly keep their heads above water. (*v*) Due to all these evils inflation creates a genuine discontent and hostility against the Government especially, as in India, if it is not a Government of the people themselves. Such hostility adversely affects the war-effort. The Russian Revolution of 1917 and the rise of the Nazis in Germany can be attributed to the social discontent created by inflation during and after the Great War (1914-18).

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[1] C. N. Vakil : Financial Burden of the War on India, p. 72.
[2] Ibid, p. 58.

It is because of such evils that all modern countries[1], *e. g.*, the United Kingdom and the U.S.A., took every pains to avoid inflation. Thus compared with July 1939, by the end of 1946, while prices in India had risen by 180 per cent, in the United Kingdom they had risen only by 73 per cent and in the United States by 43 per cent.

12. Suggested Remedies.—The root cause of inflation in India, as we have seen, was the defective system of financing the purchases made in India on behalf of His Majesty's Government and the Allies. Payments were received in London, and this sterling was converted into sterling securities to be kept in the Issue Department of the Reserve Bank. Against these securities, notes were issued in India for making payments to the Indian sellers of goods above-mentioned. The most important remedy, therefore, was to change this system of war finance. Thus :—

(*i*) The Indian Government should not have received payments in terms of sterling in London. Payments from Britain and her Allies should have been received in either some or all of the following forms (*a*) gold, (*b*) machinery and other capital goods, (*c*) by liquidation of British assets in India (*d*) by raising rupee loans in India on behalf of Britain and her Allies on the security of British assets in India. As a result of all these measures there would have been no sterling securities available to form part of the assets of the Reserve Bank against which notes could be issued.

(*ii*) The Government of India should have provided rupees for making purchases on behalf of His Majesty's Government and the Allies only to the extent of the amount that it could raise by means of taxes and loans over and above what it required for its own expenditure. Sterling payments could be received to this extent, but this sterling should have been kept as a balance in London, if necessary, but not transferred to the assets of the Reserve Bank's Issue Department.

Apart from these, other anti-inflationary measures should have been taken with the object of transferring as much purchasing power as possible from the hands of the public to the hands of the

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[1] The following statistics of notes issued and wholesale price indices show how prices rose much more in India than in the U. K. and the U.S.A :

July 1939 = 100

Year		India		U. K.		U.S.A.	
		Notes	Price	Notes	Price	Notes	Price
1st quarter of 1940	...	132	125	104	130	108	104
,, ,, ,, 1941	...	136	120	118	152	133	108
,, ,, ,, 1942	...	204	154	147	161	187	128
,, ,, ,, 1943	...	356	238	180	165	277	136
,, ,, ,, 1944	...	505	298	212	167	382	138
,, ,, ,, 1945	...	613	301	240	170	491	139
,, ,, ,, 1946	...	705	295	260	175	531	...

See Reserve Bank Report op. cit (1945-46), p. 5.

Government. These measures were of three kinds: (*i*) those relating to retrenchment and taxation, (*ii*) those relating to loans, and (*iii*) those relating to price control and control of articles of consumption.[1]

Such measures, to some extent, were taken by the Indian Government. It was necessary to lower the inflated salaries offered by the Government to attract people for new posts created for war purposes. Taxation was put high, but it could have been still higher especially from those whose earnings were increased by the war. The problems of war loans and price control are discussed in their proper places.

The Present Problems.

13. Peculiarities of the Indian Currency System—Before we discuss the main currency problems, we may note some peculiar features of the Indian currency system

(1) We have no standard of money and 'there is no definite objective norm or measure by which charges in values or developments in the National Economy can be gauged.' The rupee is not a standard coin. It is represented as a fraction of pound-sterling, and the only guarantee of its stability is the obligation of the Reserve Bank to maintain the rupee-sterling rate. But the value of pound-sterling is itself subject to fluctuations. Hence the stability of exchange is really no guarantee of the stability of the Indian currency system. This, however, is true of most of the currency systems of the world. But in other countries there is a tendency to revert to the previous norm or standard, however impossible it may look. But we are not working for any such goal. The rupee has to be emancipated from its dependence on sterling in order to restore it to the position it had in the last century. Now that we are a creditor country, it should not be difficult of realization.

(2) On account of abnormal rise in the price of silver, there is no possibility of making any profit from the coinage of rupees or subsidiary silver coins.

(3) The progressive debasement of the rupees in recent years has brought it very near to the paper currency, although rupee coins may continue to be used for sentimental reasons. In course of time as banking habits develop, notes may largely replace paper currency and the expense of using matallic money and of keeping large metallic reserve may be avoided.

(4) There is no fixed standard of value in terms of which currency notes are expressed. Besides this there are two glaring difficulties; (a) Though the notes are unlimited legal tender, they are not convertible in gold or silver but only in legal tender; (o) The second difficulty is "the dependence upon sterling of the currency note for convertibility in the shape of sterling securities." The

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[1] Vakil op. cit., p. 97.

likely fluctuation of the pound-sterling is a source of weakness. The sterling securities cannot be realized and hence the notes backed by them are really inconvertible.

(5) The Indian currency system is not capable of automatic expansion or contraction in response to changes in trade or to meet the requirements of growing economy. The rupees once put into circulation seldom return when their need is over, they are hoarded. Again, when new rupees are wanted, they must come from the mint. This puts a severe strain on the country's resources and large purchases of silver for the purpose upset the country's balance of trade. The note issue also lacks elasticity, as reserve has to be maintained. " Paper money would be unable to render its full service to the country's economy, so long as the reserve provisions are rigid as today, with sterling securities predominating ; and so long as a close contact with the active features of the country's economy, particularly, in regard to domestic and foreign trade is not provided."

(6) " There is no co-ordination between the total value of money of all kinds in circulation and the aggregate national economy. There is very little of the so-called 'deposit currency' which every modern commercial country tends to develop more and more...... There is no correlation...between the total volume of money in circulation......and the economic needs of the country, its productive capacity or distribution requirement "

14. The main problems. The main currency problems of India relate to the problem of the standard, the problem of ratio, the problem of the sterling balances and that relating to international monetary co-operation.

15. The Problem of the Sterling Exchange Standard.—In this connection the following choices are open to India :—

1. Keeping to the sterling exchange standard.
2. Adoption of a dollar exchange standard as now.
3. Taking to the gold standard.
4. Keeping the rupee free of any legal link.

Those who favour the sterling link point out to the importance of sterling as an ultimate means of payment for Indian exports. It is likely that, in spite of the schemes of international currency co operation, the sterling bloc will embrace a large area of the world and the sterling link will facilitate India's trade relations with this area.

On the other hand, those who are against the continuance of the sterling standard oppose it largely because " they fear, the economic situation of the United Kingdom will prevent the full and free utilization of sterling balances, *i.e.*, they fear that sterling will not be a secure basis for multilateral exchanges, and they also fear that there may be post-war inflation so that the value of sterling in terms of commodities will decline".[1]

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[1] Gregory : Indian Currency (Kitabistan), p. 10.

It is further pointed out that advantages claimed for the sterling standard in the past no longer exist, nor the reasons for which England insisted upon the sterling link. Our sterling debt has practically disappeared. Some of the British assets in India also have been transferred to Indian hands. Home Charges have been wiped out. Moreover, England now is a debtor country and is not the best place for keeping balances for exchange stabilization. England, on her part, wants to keep sterling free and there is a possibility of sterling depreciating in terms of the dollar in view of the comparative prices and costs in the U. K. and the U S.A. Thus the sterling link will leave the rupee at the mercy of British currency policy irrespective of the needs of India.

Ultimately, however, the advantages of the sterling link will depend upon the extent of the sterling area and our trade with such an area. Since we have joined the International Monetary Fund, our currency has developed a new link and the sterling link has become correspondingly weak and unimportant. It is no longer appropriate to describe our standard a Sterling Exchange Standard. Sterling link has not benefited us in the past. It has prevented us from following an independent currency policy, and it has been responsible for inflation in the country. But considering that our commercial and political relations with the U.K., in spite of our having declared our independence, are still very close and wide, the rupee will, in practice, maintain intimate relationship with sterling for some time to come at any rate.

16. **Dollar Standard.**—Some people suggest a dollar standard for India. Various arguments can be advanced in its favour. In the first place, dollar has a high prestige. The United States has come out of the war as the most important single economic unit. But in order to have a dollar standard we must build up a Dollar Reserve Fund. This could be done either by loans or by creating a large export surplus with America. A third method would be to induce Great Britain to convert a portion of our sterling balances into dollars. It is unlikely that India will be able to negotiate a loan with America since there are so many claimants including Great Britain and West European countries for such loans. Building a dollar reserve by surplus exports will also be difficult. We can offer very little to the United States in normal times. As regards conversion of assets, such a transaction carried on a large scale would "probably be interpreted as a capital transaction and hence be subject to control"[1] by Great Britain. Even if a reserve could be built up, linking of the rupee with the dollar will impart to our economic life a great element of instability since American economic activity tends a swing through a very wide arc." As an exporter of primary products, the prices of which are subject to great fluctuations, India has her economic life already subjected to elements of instability. The dollar link will add to this instability because it will involve linking

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[1] Gregory : Indian Currency, p. 11.

of the "price and cost structures" (the relative relations of prices and costs) of the two countries.

17. Gold Standard.—The case for a gold standard is not as strong now as it was in the past. No doubt gold will play an important role in the International Monetary Fund,[1] it is not likely that gold standard will be adopted by a large number of countries. If the rupee is linked with gold, a fluctuating relationship will be established with the currencies of the non-gold standard countries, *e.g.*, those on sterling. Moreover, India will not possess enough reserve of gold to justify her undertaking the sale of unlimited quantities of gold, which the gold standard involves.

18. The Free Rupee.—Finally is the suggestion to have the rupee free of any particular link. This implies leaving the rupee free to find its value through the play of market forces. Several advantages are claimed for this policy. The strongest argument in its favour is that it will enable India to offset price changes in the outside world by varying her exchange rate. This will leave our domestic prices and costs undisturbed. For instance if during the last economic depression we were free to change our exchange rate as we liked, India could have prevented the excessive fall of prices in this country by lowering the external value of the rupee.

The advantages of free exchange are sustained if only a few countries adopt it. Otherwise the danger is that countries may start competing with one another in depreciating their exchanges as was the experience during the past depression. Such a policy led to intensification of trade barriers which restricted international intercourse. Wide variations of currency rates are not permitted by the rules of the International Monetary Fund and India as a member of the Fund is bound by these rules.

Absence of legal link, however, does mean that the rupee should be left to the unrestricted forces of the market. There may be no *de jure* (according to law) link with gold or any other currency but *de facto* (according to the fact) such a link may be maintained. For instance, India may adopt a gold link without undertaking any legal obligation to sell unlimited quantities of gold. Such a stabilization may be as effective in practice as a formal gold standard. This method admits of possibility of exchange variations But this does not mean that frequent variations will actually take place. A similar *de facto* link can be maintained with sterling, or dollar, without making it legally binding.

19. The problem of ratio.—A keen controversy has always centred round the ratio question in India But since 1939 the controversy has almost completely subsided. As a member of the I. M. F. we have declared our initial ratio as 1s. 6d. Is it a correct decision ?

The proof of a correct ratio is that there should be harmony between costs and prices. "The rate of exchange is an index of relationships of price levels, balance of payments, tempo of economic development, etc. subsisting at any time between different countries." Considering all relevant factors it seems 1s. 6d. is a fairly correct index of such relationships. It does not seem to be out of harmony with the existing economic conditions in India.

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[1] See section below,

The prices in India are very high and we cannot therefore lower the ratio lest prices should rise still higher. Similarly, we must keep to the higher ratio because it cheapens imports and we want to import capital goods and essential consumers' goods. For some time we are going to import more than export.

A change in the ratio is necessary to rectify maladjustments in the economic system or to build up a favourable trade position or to ward off booms and slumps from abroad. There is no serious maladjustment at present that we have to correct and for the other two objects monetary co-operation, rather than independent and isolated action, is essential. As a member of the Fund we are precluded from any such unilateral action.

On the whole, therefore, the decision to stick to 1s. 6d. is a wise decision. In case any change is called for, it can be easily effected as the rules of the Fund permit 10—20% variation in the ratio. The whole position may have to be reviewed when economic conditions and the price levels in the world at large have become settled.

20. **Sterling Balances**.—Accumulation of sterling attracted much attention during the war. But India has always held some sterling in London as a part of the paper currency reserve. The amount thus held immediately before the war was £ 48 million (Rs. 64 crores).

The accumulation of sterling during the war, however, was a spectacular affair. The sterling balances reached the peak figure of Rs. 1,733 crores in 1945-46, came down to Rs. 1,612 crores in 1946-47 and to Rs. 1,565 crores in 1947-48. The principal source of this accumulation was the re-imbursements in sterling to the Government of India by the United Kingdom for the purchase of stores and other materials and certain other expenditure incurred by us on their behalf and on behalf of other Allied Nations. A Section of the Reserve Bank Act, which imposed on the Bank the obligation to buy sterling to an unlimited extent, was utilised for financing these supplies It was not intended that this section should be utilised for such purposes. The payments in sterling made by the British Government were handed over by the Government of India to the Reserve Bank in exchange for rupees. They are now the property of the Reserve Bank and have been invested or deposited with the Bank of England. They are held by the Reserve Bank partly in the Issue Department and partly in the Banking Department as assets against liabilities.

But there were other sources of sterling too. (a) Dollar and other non-sterling assets held by Indians acquired compulsorily and taken to the Empire Dollar Pool; (b) annual dollars due to normal trade balance and those resulting from American military expenditure in India. These were also acquired and taken to the E.D. Pool ; (c) Annual balance of India's external account ; (d) direct purchases of food and other materials by the British Government ; and (e) expenditure incurred by Britain under Defence Expenditure Plan.

The following table gives some details of the acquisition and disposal of sterling :—

Sources	*Rs. in crores.*
1. Sterling assets held by the Reserve Bank (at the end of September, 1939) ...	64
2. Sterling purchase by the Reserve Bank (September, 1939 to March, 1941 ...	644
3. Sterling payment by His Majesty's Government (September, 1939 to March, 1945) ...	1292
Total amount available for disposal ...	2000
Disposal	*Rs. in crores*
4. Sterling amount utilized for repatriation schemes, (September, 1939 to March. 1945) ...	411
5. Other sterling commitments (derived figures) (September 1939, to March, 1945) ...	226
6. Sterling holdings of the Reserve Bank (at the end of March 1945) ...	1363

Since March 1945 our sterling assets have increased from Rs. 1,363 crores to about Rs. 1,560 crores (October 12, 1945). In June 1948 it stood at Rs. 1,547 crores. This is the amount which has to be 'repatriated'. It is a debt which Great Britain has incurred from India. Most of it was a "forced debt" and emerged because of the inflationary methods of war finance adopted and of the compulsory acquisition of India's dollar resources. British opinion, however, hesitates to regard it a debt in the ordinary sense of the word. The Indian point of view is that this sterling represents painfully accumulated savings of the Indian people and must be repaid to the last penny in the interest of reconstruction of India's economic life.

The British opinion did not openly repudiate the sterling debt but propaganda in the Press was started perhaps with a view to paving the way for considerable reduction. America also favoured a sharp scaling down of these balances. It was argued that the apportionment of war expenditure let off India lightly, otherwise the paradox of a poor country turning overnight into a creditor country would not have appeared. It was further said that inflationary prices were charged for goods supplied by India. At any rate, India made sacrifices in common with the Allies to defeat a common foe and could not claim the price.

But the fact is that India bore her full share of the war burden which was out of all proportion to her income and resources. It was proved that the goods were supplied at controlled prices which were very low India cannot be made the scapegoat and made to bear the 'donkey's burden'. The accumulation of the sterling assets has meant a severe strain on the entire Indian economy. The strain was caused by the postponement of internal consumption and the overwork of plant and machinery without replacement, and also the postponement of new development projects. The Indian people had to sacrifice the bare necessities of life to win the victory. The sterling assets thus represent our sacrifices and suffering, our blood and tears, and we are entitled to full payment to re-build our war-battered economy. It must be said to the credit of the British Government that when settlement was negotiated in June 1948, they did not suggest any scaling down and Shanmukhum Chetty, the then Finance Minister, was able to declare that the ghost of scaling down had been finally laid.

21. Settlement of Sterling Assets.—It has been established that our sterling assets do not represent abnormal and improper war gains nor are they the result of war-time profiteering. They are rather the result of absention forced on us and they have meant untold sacrifices and suffering on the Indian people. They have therefore to be paid like an ordinary debt.

But we have to look to the condition of our debtor. Economic situation in Great Britain is pretty serious. Her overseas investments have all been wiped out. Her shipping position has been considerably impaired. She has to reconstruct her war-torn economy. The foreign debt can be liquidated only by the transfer of goods and services. Thus the only way that the United Kingdom can achieve an orderly liquidation of the balances is by creating an export surplus, and obviously it would take some time for her to do so. Hence the time, the manner and the form in which these balances have to be repatriated is a matter for negotiations.

The sterling balances can be liquidated in the following ways :—

(1) Importing goods from England. But it will not be to India's interest to import consumer goods which may compete with the products of Indian industries. We should utilise our sterling resources primarily for the purchase of capital goods required for our development schemes.

(2) As Great Britain may not be able to meet our immediate demand for the goods we need, it will be necessary to convert a part of sterling assests into currencies of other countries (notably U S. dollar) to enable India to make her purchases in the cheapest markets. A part of the gold and dollar assets held by Great Britain in America estimated at £ 875 million may be utilised for the conversion of sterling into dollars. A part of American loan to Great Britain, too, may be placed at our disposal in exchange for sterling. Prof. K.T. Shah has suggested that Britain should pay us by the removal of industrial plant from Germany.

(3) The British commercial investments in India may be acquired at reasonable prices.

(4) Sterling balances can also be utilised for (a) funding of pensions of Britishers who served in India ; (b) acquisition of share

in British air and shipping services ; (c) purchase of defence equipment, *e.g.*, aircraft, naval craft, etc. ; (d) training facilities to Indians in various establishments in the United Kingdom connected with the three Services, technical institutions and higher university education.

22. Sterling Agreement of June 1948.—The discussions in early 1947 between the two Governments on the matter of settling these balances were not conclusive, but an interim settlement was effected in August, 1947, relating to foreign exchange required by India for a period of six months. In January, 1948, the agreement was renewed for a further period of six months. The main difference was the limitation on the extent of convertibility of our holdings in our No. 1 Account consequent on the suspension of convertibility provided for in the Anglo-American Loan Agreement. For the first half of 1948, the convertible portion of sterling released was limited to £ 10 million (Rs. 13 crores). These two six-monthly agreements had released £ 83 million out of which only £ 3 million could be utilised.

The practice of obtaining releases for six months proved unsatisfactory because it created uncertainties in our foreign exchange position and seriously interfered with a balanced import policy. For planned economic development it was necessary to look ahead for a reasonable period.

The agreement entered into in January 1948 expired in June 1948, and a fresh settlement was effected. According to this agreement, the U.K. agreed to release during the three years ending 30th June, 1951, a sum of £ 80 million (Rs. 107 crores) which, together with the unspent balance in our Account No. 1, as on 1st July, 1948, would place at our disposal resources amounting to £ 160 million (Rs. 213 crores) over and above our export earnings during this period. The sterling balances of India at the time of negotiations of June, 1948, agreement were about £ 1160 million (Rs. 1,547 crores). As there were already £ 80 million in Account No 1, no transfer would be made to it in 1949 but £ 40 million would be transferred each year in 1950 and 1951. In addition to £ 83 million sterling released, India took a loan of £ 11 million from the I.M.F. in 1948 to meet the current dollar deficit.

In view of the various uncertain factors affecting the economy of the world in general and the U. K. in particular, the arrangement relating to multilateral convertibility was confined to one year, and it was agreed to limit multilateral convertibility to £ 15 million (Rs. 20 crores) during the first year. This, however, bears no relation to our urgent needs. The Government of India had taken over from the United Kingdom all their stores and installations which they had left in India at the end of the war. The price to be paid for them was settled at £ 100 million (Rs. 133 crores).

The Government of India also purchased from the U.K. tapering annuities to meet its liability for the payment of pensions to British officers retired from India. The price of these annuities was settled at £ 147½ million (Rs. 197 crores) for Central pensions and £ 20½ million (Rs. 27 crores) for the pensions of the provinces of India.

After deducting the above items, the net balances in favour of India would be approximately £ 800 million (Rs. 1,067 crores). Out of this, about £ 200 million (Rs 267 crores) may be considered as a normal currency reserve. Thus the balance available for use will be approximately £ 600 million (Rs. 800 crores). Interest at ·75% is to be paid on blocked balances.

While commenting on the agreement the British business circles aid that India had secured better terms on two points, *viz.*, pensions and stores, without giving any settlement on the question of scaling own. It was said that India had two birds in hand, while Britain has only one in the bush. But really the agreement was no achievement from Indian point of view.

This is not a final settlement. It does not cover the three large questions of funding India's remaining sterling balances for repayment in British exports over a long period of years ; repatriation of British-owned commercial investments in India ; and scaling down. The question of scaling down may be raised by the British at some later stage. Sir Stafford Cripps threw a hint of this to Mr. Churchill during a debate in Parliament. These agreements, and the sterling releases, based on them, have reduced India's sterling balances to nearly half of the peak figure.

As the position now appears, Mr. Chetty seemed to be unduly pessimistic about our ability to use the released balances.

The agreement safeguards Britain against heavier withdrawals ; it does not guarantee India the supply of desired goods even to the extent of meagre sterling resources released. The British may not oblige India with the supply of goods she wants. If Britain seeks to make the obligation to supply capital goods in this way, then the Indian exports may be diverted to other markets so as to produce British export surplus.

About the stores it may be said that it would not have been worth the while of the U.K. to take them away, most of which would have to be sold as scrap.

As for the pensions it would have been perhaps better to withdraw the necessary amount annually from the blocked account.

Indians had entertained very exaggerated expectations about these balances. The agreement has a sobering effect of bringing a sense of reality. The agreement did not create much enthusiasm in India. Mr. Manu Subedar remarked, "More than half of what India had given in four years would still remain unpaid after eight years and still open to suggestions of scaling down...The value of stores was fictitious and highly exaggerated. ...... Commutation of pensions cannot be regarded as an achievement, because England has made sure by this means of full payment to her nationals....... It is a pity that the question of British assets in India was not even mentioned."

India has been heavily drawing on these balances. In the first ten months of 1948-49, the sterling assets of the Reserve Bank declined by nearly Rs. 556 crores. The withdrawals have been on account of (a) payment for sterling annuities and defence stores accounting for Rs. 284 crores ; (b) transfer of assets to Pakistan under all heads amounting to Rs. 177 crores ; and (c) to meet an adverse balance of payments on current and capital account. The deficit on current account since the middle of 1948 in India's balance of payments has been established at Rs. 100 crores. According to June 1948 agreement, India could draw for each of the three years beginning from July 1948, Rs. 70 crores per annum. India seems to have already encroached upon next year's releases even before the end of the year.

23. International Monetary Fund.—In 1943, international monetary plans were prepared by the United Kingdom, the United States and Canada. Out of the fusion of these plans and discussions at the Brettonwoods Conference in the summer of 1944 an international monetary scheme emerged. This envisages the establishment of an International Monetary Fund and an International Bank.

The main features of the International Monetary Fund are given below :—

(*i*) Out of subscriptions of member countries a Monetary Fund amounting to 8·8 million dollars has been created.

(*ii*) A member country must pay its subscription according to the quota allotted to it. Twenty five per cent of the quota or 10 per cent of its holdings of gold, whichever is smaller, must be paid in the form of gold, the balance being paid in the form of local currency.

(*iii*) The resources of the I. M. F. will be kept in the form of gold or local currencies. The latter will be kept in the central banks of member countries.

(*iv*) The purpose of the Fund is to promote exchange stability, to avoid competitive exchange depreciation and to facilitate the expansion of international trade through the multilateral convertibility of national currencies. All exchange restrictions and controls, discriminatory currency arrangements, and multiple currency practices which are not approved by the Fund have to be finally eliminated. Some restrictions, however, are allowed during the transition period.

(*v*) The chief function of the Fund is to purchase and sell currencies of member countries for one another. The condition, however, is that the Fund's holdings of any member country's currency should not exceed 200 per cent of its quota.

(*vi*) The debtor countries will get accommodation from the Fund to the extent of 75 per cent of their quota *plus* an addition of 25 per cent each year subject to a maximum of 200 per cent of their quota. These conditions may be relaxed at the discretion of the Fund. Thus a debtor country will be saved from gold exports and consequent deflation (as happened under gold standard) through the help of the Fund.

(*vii*) Creditor countries whose export surplus exceeds 75 per cent of their quota will have their currencies declared scarce. Such currencies will be rationed among countries needing them. The I. M. F., however, can increase the supply of scarce currencies by borrowing or purchase of gold. If even then these currencies are not enough, debtor countries must restrict their imports from creditor countries.

(*viii*) Member countries are required to fix parities of their currencies with gold. An all-round uniform change in these parities can be brought about by the consent of member countries contributing individually more than 10 per cent of the aggregate quota. Such members are the U. S. A. , Great Britain and Russia.

(*ix*) Apart from this, the member countries can alter exchange value of their currencies by 10 per cent Another 10 per cent change can be brought about by the consent of the Fund. Changes beyond this can be brought about, with the consent of the Fund, only to correct a fundamental disequilibrium.

(*x*) To prevent member countries from taking advantage of the Fund and *also* building up gold reserves, the Fund may require a member who has increased its gold holdings at the end of the year to use one-half of such increase to purchase its own currency.

(*xi*) The Fund is not to interfere in the internal economy of member countries to restore equilibrium in their balance of payments

(*xii*) Members can withdraw from the Fund by a simple notice in writing.

(*xiii*) The Fund is managed by an Executive Board of twelve Directors on which India, China, the U. S. A. , Britain and France have a permanent seat each. Two seats go to the Latin American Republics, while the other five are filled by election.

These are then the main features of the Fund. It is a compromise between the previous British and American plans. It gives great freedom of action to countries, and does not interfere with their internal economies. In fact it is a system of exchange stabilization funds evolved by individual countries during the depression years carried to an international plane. Though gold is no longer as important in settlement of international obligations as under gold standard, that metal still plays an important role. The plan avoids its concentration in a few countries as happened during the inter-war period.

24. India and the I. M. F. Ideally speaking, no international monetary plan should be acceptable to India unless certain conditions are satisfied. These conditions and the extent to which they are satisfied under the I. M. F. are given below :—

(*a*) India should be free to change her link with the sterling and to change the ratio of her exchange according to her own needs. The Fund does not impose any obligations on India to continue the sterling link India can fix her parity with gold. The Fund provides for a sympathetic consideration for changes in exchange rates.

(*b*) After the war due to the practical disappearance of her sterling debt and prospective reduction of her "Home Charges" India will not need to have so much favourable balance of trade as in the past. The Fund should leave India free to balance her international account by reducing exports rather than by increasing imports. Since the Fund will not interfere in the internal economy of the members this autonomy is also satisfied.

(*c*) India should be free to use her fiscal policy in the interest of her own industrial development. In this respect also the Fund will presumably recognize the autonomy of members.

(*d*) India should have the benefit of the Fund to receive back her sterling assets from Great Britain in a multilateral manner. This is the weakest point in the scheme from the point of view of India. The plan makes no reference to war-time balances. Such matters, presumably, have been left to bilateral negotiations between the parties.

(*e*) India should be given a permanent seat on the management of the Fund. This she has got now, though not provided in the scheme originally, because Russia has kept out.

The Brettonwoods Conference also proposed an International Bank for Reconstruction and Development. Since a country must become a member of the I.M.F. in order to be a party to the Bank, it is necessary to know what advantages the membership of the Bank will bring to the participants.

India's quota in the Fund is $ 400 million and in one year (March 1948—March 1949) she has borrowed no less than $ 92 million. This is a short-term finance and is used for current purposes, mainly to meet deficit in the current balance of payments. India has the reputation of the most persistent operator on the Fund and in April 1949, she had exhausted its dollar purchasing authority with the I.M.F.

A mission under Mr. H. H. Parsons, Fund's Director of Operations, visited India in March, 1949, to investigate the possibility of granting to India further dollar purchasing authority. It is recognised that India's heavy drawings have been the result of exceptional circumstances calling for heavy imports of foodstuffs.

25. Advantages of participating in the International Monetary Organizations. There is more than one reason why India should participate in the new schemes in spite of their shortcomings :—

(*i*) India needs large amounts of capital for her development. This she can obtain through the facilities provided by the Bank. The Bank can at the same time help India in the repatriation of her sterling assets. She can give these balances as securities for obtaining loans. "The machinery of the International Bank," in the words of Dr. Rao, "could be most useful for India for getting a part at any rate of her sterling balances liquidated in the immediate post-war period; and to this extent offset the disadvantages accruing to India by the exclusion of war-time balances from the I.M.F."[1] This would be possible "if arrangements could be made with the United Kingdom for her to pay the amortization amount due on loans that India can obtain from the International Bank. Thus India can get the capital she requires at once; and England will get enough time to liquidate her sterling balances, as the amortization period will extend over a period of at least 20 years."[2] India has already got a seat on the Executive Board and it should keep it, even if Russia decides to come in.

India should also continue the membership of the I.M.F. first, because she cannot be a member of the Bank without being a member of the Fund. Secondly, because India's balance of trade is likely to be unfavourable for some time to come due to pent-up consumer's demand and necessity of capital imports for industrial development. Membership of the Fund will help her in maintaining her balance of payment. Thirdly, since other countries have joined these schemes, India does not want to be isolated in the international field. She must play a part in shaping international decisions and this she cannot do if she keeps out of the schemes aiming at international co-operation. India has thus done well to join the schemes.

Suggestions for further Reading

1. Herschell Committee Report.
2. Fowler Committee Report.
3. Chamberlain Commission Report.
4. Babington Smith Committee Report.
5. Hilton Young Commission Report.
6. Vakil and Muranjan—Currency and Prices in India.
7. Chablani—Indian Currency and Exchange.
8. G. D. Birla—Indian Currency in Retrospect.
9. Jain, L. C.—Monetary Problems of India.
10. Reserve Bank Reports on Currency and Finance.
11. Gregory—Indian Currency.
12. V. K. R. V. Rao—Indian and International Currency Plans.
13. D. K. Malhotra—History and Problems of Indian Currency and Exchange.
14. Dadachanji—Monetary System of India.
15. N. P. C. Report on Indian Currency and Banking.
16. C. N. Vakil—Sterling Balances (N. I. P.)

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[1] Dr. V.K.R.V. Rao :—Indian and International Currency Plans, p. 98.
[2] Ibid, p. 96.

CHAPTER XXXI

PUBLIC FINANCE

1. Importance of Public Finance. The nature of Indian financial system affects to a very large extent the various aspects of Indian economic life. Conditions of trade, industry and agriculture, in so far as they depend on the support and guidance of the State, must need be influenced by the financial structure of the country. If the people are illiterate, it is only because the State cannot spare the amount of money which will be sufficient to remove illiteracy within a reasonably short period If the roads are bad and insufficient, hospitals ill-equipped and inadequate in number, if there are slums, if the mortality rate is high, it is all due to the fact that sufficient money is not forthcoming to accomplish these very desirable objects. The system of public finance, therefore, has a bearing on economic life which cannot possibly be over-estimated.

Besides, public finance in modern times has assumed a new importance. It does not merely deal with the ways in which the State raises revenue and the directions in which it spends it. It has, on the other hand, a purpose behind it. It is used as an instrument to even out the uneven distribution of wealth in the community. The object of imposing taxes is not merely to raise so much money but to raise it from certain sections of the community, generally the more prosperous ones ; and the public expenditure so designed as to benefit the poor. These ulterior motives have imparted to the study of public finance a new interest and a new importance.

2. Some Factors that Govern Public Finance in India. We have just said that economic conditions of a country are governed by the system of public finance obtaining there. But the reverse of it is equally true. The economic, social and political factors of a country too largely control and condition the financial system that prevails there. It is very much true in the case of India. The sources of Indian public revenues as well as the items of public expenditure in India are the outcome of our peculiar economic, social and political conditions.

The following are the chief factors that govern public finance in India :—

(i) *Predominantly Rural Character—Isolation and Self-Sufficiency of the Village* As the villagers generally consume what is produced in their vicinity, it necessarily restricts the scope of internal excises only to a few articles, such as salt, sugar, matches, kerosene and alcoholic liquors, for which the villager depends on outside supply. The scattered and isolated character of Indian villages requires more expenditure if an efficient and adequate system of public health, communications and transportation is to be maintained.

(*ii*) *Dependence on Agriculture*. About two-thirds of the people depend on agriculture. When a large mass of the people pursue one occupation, they will naturally loom large in the system of taxation. This explains why every agriculturist contributes to public revenues in India, whereas most of the non-agriculturists go scot free.

This exclusive reliance on agriculture affects public finance in other ways. Agriculture depends on rain which is not always timely, adequate or evenly distributed. More than four-fifths of the total cultivated area depends on uncertain rainfall. Uncertain character of the Indian monsoons is a serious and disturbing factor in budgetary calculations. That is why Indian budget has been described as a "*gamble in the monsoons*", and, as the Indian Statutory Commission remark : "its arrival continues to be a subject of deep concern, not only to the cultivator and admistrator, but to the Finance Member." Failure of rains causes land revenue to shrink through remissions and suspensions, and necessitates expenditure on famine relief and *taccavi* loans. This is the effect on the provincial finance. But the finances of the Central Government also do not escape the injury. The diminished purchasing power must affect imports, general trade activity and earnings of railways. Hence customs, income-tax and railway earnings all have a tendency to shrink. Predominance of agriculture also explains why income-tax in India does not occupy as important a position in the tax system as it does in other industrial countries. With us land revenue is more important, whereas it is of minor importance elsewhere.

(*iii*) *Poverty*. The poverty of Indian masses explains the low taxable capacity and the low yield of our taxes. It limits the scope of further taxation. Our public expenditure on public health, education and other beneficent activities, or "nation-building" activities, as they are usually called, is extremely low. This is due to the poverty of the tax-payers and the extremely limited resources of the State.

(*iv*) *Inequalities in the Wealth and Taxation*. There are great disparities in the distribution of wealth ; and there are as grave inequalities in the distribution of taxation.

(*v*) *Traditions of Centralized Administration*. India has long traditions of centralized rule and Indians have always looked on to Government to do so many things for them. There is, therefore, in India an urgent need for expansion and increase of public expenditure. Further, as the centralization led to the decay of the autonomous village panchayats, local finance was relegated to the background. In India, as compared with other advanced countries, local finance occupies an insignificant position, and it is entirely at the mercy of financial support from the provincial Government. Total income in 1927-28 of all the rural boards of British India, taken together, amounted to less than £4 million as compared with £27 million collected in the same year in the rural areas of England and Wales from a population not much more than a-thirtieth of that of British India. Local rates of all kinds, rural or urban, produced in 1927-28 in British India were about £12½ million, which is only a little more than the income from rates in that year of the London County Council alone.[1]

(vi) *Political Status.* The level of military expenditure, the scale of salaries and the nature of public debt are outcome of our constitutional position.

Thus the system of public finance in India is determined by our predominantly rural character, isolated villages, dependence on agriculture with precarious rainfall, poverty and the low standard of living of the masses, inequalities of wealth distribution, traditions of centralized administration and, above all, our constitutional position.

3. History of Financial Decentralization. For the proper understanding of the Indian system of public finance, it will be necessary to trace the history of financial devolution, and see how the Central and provincial finances were gradually evolved.

Up to 1833, each province was financially independent, raising its own revenue and spending it in the manner it liked. To use Dr. Ambedkar's words, "The several provinces were like separate clocks, each with its mainspring in itself."[2]

But the Charter Act of 1833 made a radical change in this position. It laid the foundation of legislative centralization and together with it came the financial centralization. All the revenues came to be vested in the Governor-General-in-Council and the provinces became merely collecting and spending agencies. The provinces had no interest in developing revenues, nor any inducement for effecting economies. They pitched the demand as high as possible, because they had "a purse to draw upon of unlimited, because of unknown, depth." To use Strachey's words, "The distribution of the public income degenerated into something like a scramble in which the most violent had the advantage with very little attention to reason; as local economy brought no local advantage, the stimulus to avoid waste was reduced to a minimum, and as no local growth of income led to local means of improvement, the interest in developing the public revenues was also brought down to the lowest level."

Financial decentralization seemed to be the only remedy. Lord Mayo, in 1871, transferred certain departments, local in character, to the provinces. In addition to the departmental receipts from these departments, the provinces were given fixed lump sum grants to enable them to administer these departments.

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1. See Indian Statutory Commission Report, 1940, Vol. I, p. 336.
2. Ambedkar, B. R.--Evolution of Provincial Finance in British India, 1925, p. 7.

The next step was taken by Lord Lytton's Government in 1877 when provinces were made responsible for expenditure of some more departments. Besides the fixed annual grants, the provinces were assigned some sources of revenue.

In 1882, in the Viceroyalty of Lord Ripon, a system, called "the divided heads of revenues," was introduced. The defect of the previous settlements lay in the annual grant by the Central Government. Every year it proved to be a bone of contention. In 1882, therefore, these annual fixed grants were abolished and instead the provinces were assigned exclusively certain heads of revenue and a share in some others.

In order to impart greater stability to the finances, the settlement was made subject to revision after every five years. These quinquennial revisions were made in 1887, 1892, and 1897 invovling no change of principle but only some minor adjustments. In 1904 these settlements were made quasi-permanent by Lord Curzon to avoid any element of uncertainty even after five years.

Lord Hardinge's Government made them parmanent in 1912. This system continued till the reforms of 1919 made another radical change.

4. Financial Arrangements under the Reforms Act of 1919. The Reforms Act of 1919 put the financial relation between the Central Government and the provincial Governments on an entirely new basis. The divided heads of revenue were abolished and a clear-cut separation was effected between the resources of the Central Government and those of the provincial Governments. Also the provinces were granted borrowing and taxing powers.

The Meston Award. This distribution of resources between the Centre and the provinces created a deficit of about Rs. 9 crores to the Centre and gave a surplus of about Rs. 18 crores to the provinces. Provincial contributions were necessary to make up this deficit till the growth of Central resources made the deficit disappear. A committee presided over by Lord Meston was appointed to determine the contributions payable by the provinces, and the decision given by the Committee has come to be called the Meston Award or the Meston Settlement. In giving the award the committee took care to see that every province had a reasonable working surplus and that no province should be under the necessity of embarking on a big tax programme. The Committee recommended initial, intermediate and standard contributions. The initial contributions were based on the immediate financial situation in a province, whereas the standard contribution was based on the consideration as to what it can, and ought to, pay in the long run.

5. Criticism of the Financial Arrangements under the Reforms of 1919. The Meston Settlement met with strong criticism, each province having an objection of its own. Some provinces, like the Punjab, the U. P. and Madras, protested against larger contributions, while Bombay and Bengal complained against their being deprived of their highly productive source of revenue, *viz.*, Income-tax. The following are the main objections to this scheme :—

(*i*) *Wrong Allocation.* The allocation of resources between the Centre and the provinces ignored their relative requirements. The functions of the Central Government are more or less stationary. The expenditure of the Central Government, therefore, is not likely to increase, but the Central Government has expanding sources of revenue, like income-tax and customs. Provinces, on the other hand, are charged with beneficent functions or the "nation-building" departments. Their present expenditure on such services is not even a fraction of what it ought to be. There is a persistent demand for the expansion of these services, hence the provincial expenditure on them must increase by leaps and bounds. But the provincial resources are inelastic. Land revenue is already oppressive in the case of the majority of the small cultivators; excise revenue can only increase if people take to drinking on a large scale, whereas the provinces aim at prohibition; Stamp fee is a tax on justice; Forests require liberal initial expenditure. Thus the scheme is defective because it combines growing expenditure with diminishing revenue in the provinces and expanding revenues and stationary expenditure in the Centre.

(*ii*) *Inter-provincial Inequalities Accentuated.* Another defect is that some provinces feel that they have not been fairly dealt with and that the existing inequalities have been further aggravated. The highly industrialized provinces, like Bombay and Bengal, suffered, for their only productive source, *i. e.*, income-tax, was taken away, while the agricultural provinces, like the Punjab, gained because they got land revenue which is the only important source for them.

(*iii*) *Disparity between Different Classes of the Community.* The scheme also resulted in a very unequal contribution to the revenues by the different classes of the people considering the benefits received. The provincial exchequer is largely fed by the agriculturists. The industrial and commercial classes, on the other hand, who live in urban areas and considerably benefit from the activities of the provincial Governments, contribute to the Central Exchequer. This created an odd situation in the provinces and embittered the relations between the agriculturists and non-agriculturists.

(*iv*) *Lastly*, it may be mentioned that a clear-cut division of revenues is impracticable and is to be met with nowhere in the world. It is a federal solution applied to a non-federal State. Even in federations, this theoretical principle is respected more in the breach than in the observance. In the U. S. A., Australia and other federations the tendency is towards integration and not separation. The Federal Governments have come to play a role in modern times that was not at all anticipated in the beginning. Their activities of guiding, co-ordinating and goading the provincial Governments are daily expanding. More calls are being made on their services, with the inevitable result of augmenting their financial powers. A complete separation of resources could not prove satisfactory in India.

6. Financial Developments since the Reforms. India found herself in financial difficulties after World War I. The cost of reconstruction after the war, currency and exchange instability, fluctuation in prices impeding commercial development and, above all, the high scale of salaries—all combined to create deficits in the provincial budgets. The Central finances fared no better. Both the Central and the provincial Governments had to struggle to restore the financial equilibrium by drastic economy and additional taxation. Protests from the provincial Governments against the Meston Settlement kept pouring in.[1] The improvement in Central finances after 1923 led to gradual reduction in the provincial contributions and to their final extinction in 1928-29 after having been temporarily suspended in 1927-28.

But the abolition of provincial contributions only accentuated the already glaring inter provincial disparities. The contributions had at least the effect of toning down inequalities by making the agricultural provinces pay more ; and, therefore, when they were abolished, the discontent of the industrial provinces, like Bombay and Bengal, became all the more deeper.

7. Allocation of Revenues under the 1935 Constitution. A series of financial inquiries preceding the passing of the Act of 1935 resulted in the following allocation of revenues between the Centre and the provinces :—

(A) *Federal Resources.* Customs, Income-tax (other than on agricultural income), Corporation tax, Salt, Railways, Excise duty on tobacco and other goods manufactured in India (except alcoholic liquor and other narcotic drugs and medicinal and toilet preparations containing these things), Currency and Coinage, Posts and Telegraphs, Telephone, Wireless and Broadcasting, Property tax (except on agricultural land), Succession duty (except on agricultural land) Stamp Duties on negotiable instruments like cheques, bills of exchange, etc., letters of credit, insurance policies, proxies, etc , terminal taxes on goods and passengers carried by rail, taxes on fares and freights on the railways. All income from the railways will be received by the Federal Railway authority, and surplus profit will be shared with the Federal Government on a basis to be decided by the Federal Government. Till then the existing scheme will continue.

(B) *Provincial Resources.* Land Revenue, Irrigation, Excise duties (on alcoholic liquor, opium and other narcotics and drugs, medicinal and toilet preparations containing alcoholic liquor), taxes on agricultural incomes ; taxes on land, buildings, etc. ; Succession duties on agricultural land ; Capitation tax ; taxes on mineral rights; taxes on trades, professions, callings and employment ; taxes on animals and beasts ; cesses on goods entering a local area for sale or consumption ; taxes on advertisements and sales of goods ; taxes on luxuries, amusements, entertainments, gambling and betting, stamps, registration ; taxes on goods and passengers carried on inland waterways ; tolls ; and fees for services rendered.

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[1] See Muddiman Committee Report, para 53.

The following taxes, however, are levied and collected by the Federation but are assigned to the provinces :—

(*i*) Succession Duty on property other than agricultural land ; (*ii*) Stamp Duty on cheques, bills, etc. ; (*iii*) Terminal taxes on goods and passengers ; (*iv*) Taxes on freights and fares.

The proceeds of the following taxes are shared between the Federation and the provinces :—

(*i*) Income tax (other than on agricultural income) ; (*ii*) Salt tax ; (*iii*) Excise duty on tobacco and other goods manufactured in India except those in the provincial list ; (*iv*) Export duty with a special reference to jute export duty. But the Federal authority may not give away any share till its own financial position allows it.

8. **Niemeyer Report.** It was decided to investigate the matter again, on the eve of the introduction of Provincial Autonomy, to see what financial adjustments were found necessary for the success of the new constitutional experiments. Sir Otto Niemeyer was appointed in 1935 to conduct this inquiry. The chief problem was the sharing of income-tax. It has already been pointed out that industrial provinces like Bombay and Bengal had never reconciled themselves to income-tax being appropriated by the Central Government.

The solution that Sir Otto Niemeyer suggested was no doctrinaire solution conforming to any ideal theory of public finance or based on absolute fiscal justice. He took a realistic view of the matter and gave a solution that, in the existing circumstances, it was the best possible.

In making his recommendations he steadily kept two principles in view :—

(1) That the financial stability and credit of the Central Government are of primary importance and in no case should the financial position of the Centre be undermined or jeopardized and subject to this—

(2) he wished to recommend such financial aid to the provinces that they may be adequately equipped at the start of the Provincial Autonomy, and that they should have a reasonable working surplus. He did not consider it his business to do justice between province and province or redress provincial inequalities in any manner. His sole aim was to do away with the chronic deficits in certain provinces and " to put the tottering provinces on their legs." This he tried to achieve through cash subventions, subsidies and reduction or cancellation of debts owing by the provinces and by giving a share of income-tax and jute export duty. He recommended annual cash subventions to the U.P., Assam, Orissa, the N.W. F. P. and Sind, and non-recurring grants to Orissa and Sind.

The chief recommendation related to the distribution of the income-tax. Out of an estimated yield of the income-tax amounting to about Rs. 12 crores, the provinces were to get finally 50 per cent., *i. e.*, Rs. 6 crores. But for the first five years, the provinces would get nothing ; then from the sixth year of Provincial Autonomy, the provinces would get their full share by six equal steps. It was also provided that the Centre would not relinquish any share of income-tax so long as the distributable sum remaining with it together with any contribution from the railways was less than Rs. 13 crores. In other words, the assignment of income-tax was made contingent on railway contributions. The total provincial share (*i.e.*, 50 per cent of the total income-tax) was distributed among the provinces not on any set principle of origin, residence, population, etc., but mainly on the consideration of financial needs of a province. For example Bombay and Bengal got 20 per cent each, whereas the Punjab got only 8 per cent.

The entire net debt of Bengal, Bihar, Assam, the N.-W. F. P. and Orissa was cancelled and in case of the C.P. deficit debt before 1936 and other debts before 1921 were cancelled.

Another important recommendation related to the raising of the share of the jute export duty by 12½ per cent., so that the jute-growing provinces would get 62½ per cent. instead of 50 per cent. as their share out of the jute export duty.

Sir Otto was called upon to reconcile many conflicting claims and it is not surprising that he did not satisfy all interests. Those who did not get any cash subvention naturally complained that their claim had been ignored and those who got it said they did not get enough. The award was attacked as unjust and arbitrary. But there are grounds to believe that the provinces were not so dissatisfied as they seemed. They were protesting a little too much. The Niemeyer Award may, on the whole, be considered satisfactory.

The conditions created by the war led to an amendment in February, 1940, of the Niemeyer formula about income-tax assignments. The Central share for three years 1939—42 was fixed at Rs. 4½ crores based on the average of the preceding three years. Under the old formula, the provinces would have derived the benefit of larger railway earnings and larger income-tax yield, both of which are the outcome of war conditions. As the Central Government had to bear the brunt of the war, it was only fair that the benefit should go largely to the Centre. But it has been estimated that the provinces were not losers under the new arrangement.

The Sarker Committee recommended in 1948 that the provincial share in the net proceeds of income-tax should be increased from 50 to 60% and that a similar share should be paid to the provinces in the net proceeds of corporation tax and taxes on Federal emoluments. They also suggested that greater importance should be attached to the source of collection as a basis of distribution. The Drafting Committee, however, rejected these recommendations and suggested that the provincial share should be determined by Order-in-Council or an Act of the Legislature according to the prevailing conditions.

9. **Federal Finance.** India was being prepared for a Federation, and the fiscal arrangements in the 1935 Constitution were made on federal lines Both the Centre and the provinces had been given a measure of budgetary independence; financial powers had been separately assigned and the resources were definitely demarcated.

There are certain well recognized requisites of federal finance. In the first place, the arrangements must ensure administrative economy. The possibility of evasion and fraud must be eliminated, and the cost of assessment and collection must be reduced to the minimum. Therefore, some taxes must be levied and collected by Federation, even though their proceeds are to go to the units. From this point of view, customs, corporation tax and property tax and certain excises must be Centralized. Secondly, the fiscal arrangements must provide adequate funds to each unit not only for immediate needs, but for future development Thirdly, each province must be autonomous in its own sphere. The distribution of administrative functions and the assignment of resources must harmonize and coincide, so that not only should the resources be adequate but, also, they should, administratively, fall naturally in their respective spheres. Only thus will an interference of the one into the sphere of the other, and a dependence of one on the other, be obviated; otherwise, autonomy will be a myth and federation a misnomer.

To fulfil these essentials of federal finance different proposals for allocation of resources between the Federation and the Federating units have been put forward. Prof. Saligman has suggested the following five methods :[1]

(*i*) Complete separation of resources; (*ii*) assessment by the provinces and surcharges by the Federation; (*iii*) assessment by the Centre and additions by the States; (*iv*) division of yields; and (*v*) subventions from the Federal Government.

The ideal solution is a complete separation; but it is seldom that the resources so allocated will yield precisely the amounts needed by the respective governmental units. A clear-cut division is, therefore, not to be found anywhere. There has to be a compromise, and the Indian arrangements do represent a compromise between several principles suggested.

Again, in theory, it is best to assign direct taxes to the units and indirect taxes to the Federation. But recent experience shows a divergence between theory and practice. As the Federations had to assume more and more functions, resort to direct taxes became unavoidable. In the U.S.A. the Federal Government got the income-tax in 1913, and in Australia, too, the Federal Government gets 60 per cent. out of income-tax. Integration rather than separation seems to be the rule. It ensures uniformity and efficiency.

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[1] See Vakil and Patil—Finance Under Provincial Autonomy.

The general practice is to have three lists: (1) Exclusively Federal, (2) Exclusively Provincial, and (3) Concurrent Subventions or subsidies from the Federation are also a general feature of Federal finance and for this there are several reasons. The provincial functions, being concerned with the promotion of public welfare, require increasingly large funds. Central subventions are also necessary to balance provincial inequalities and as a means to transfer funds from rich to the poor areas as well as to ensure minimum standards of service.

The difficult and perplexing problem of federal finance has been exercising the mind of financial experts in India since the Montford Reforms. Sir Walter Layton, the Financial Adviser to the Simon Commission, came to the conclusion that the revenue resources of India did not admit of clear-cut division between the Centre and the provinces. He was in favour of creating a tax pool out of which provinces could be assisted according to their need. The present financial picture conforms to the view expressed by Sir Walter Layton.

The Draft Constitution of India practically accepts the allocation laid down in the 1935 Act. The Expert Committee presided over by Mr. N. R. Sarker recommended the continuance o fthe existing distribution in view of the prevailing unstable conditions. The present allocation is to continue for five years from the commencement of the Constitution when the whole problem will be reviewed by a Finance Commission.

The shape of public finance in India will largely depend on whether the Centre or the provinces undertake the responsibility for nation-building or developmental expenditure. The situation at present is that the provincial revenues are utterly inadequate to maintain social services on anything like modern standards, and the Central Government, too, seems to be living from hand to mouth, and has no large surplus out of which to help the provinces. There is a strong sentiment in favour of provincial autonomy, but unless it is backed by the development in provincial revenues, the Centre must continue to dominate. The present expedient of divided heads and distribution among provinces according to a number of criteria, *e. g*, population, origin or need, must continue.

The Central Government in India, like other Federal Governments, must play an important role in initiating, guiding and co-ordinating schemes of social amelioration. We must bid good-bye to the ideas of dwindling and static functions of the Central

Government and mutual exclusiveness of the Centre and the provinces. For an effective utilization of our resources, it will, therefore, be necessary to have an inter-Provincial Finance Council for consultation and co-ordination

Although the Indian financial system wears a thin veil of federal finance, yet the Centre in India always has had powers of direction to ensure uniformity. And this is as it ought to be India is face to face with stupendous economic problems for the solution of which co-ordinated efforts on the part of the Centre and the units are absolutely essential. Recently (May, 1949) protests have been entered against unco-ordinated provincial finance creating chaos and a jungle of conflicting financial policies. The Indian Federation of Chambers of Commerce and Industry has submitted a memorandum to this effect to the Government of India It is pointed out that the imposition of multiple taxes by the provinces is bound seriously to impede the development of trade and industry, and will prove injurious to Indian economy as a whole. The provinces have thrown away excise revenue, have drawn on reserves recklessly and have taxed trade and industry indiscriminately so as to obstruct the free flow of trade. The sales tax has been the greatest culprit. Pakistan has centralised sales tax. This is a wise step and India should follow suit.

Two things are necessary: provincial needs for additional revenue must be fulfilled and uniformity in the Central financial field must be preserved. It is therefore very essential to evolve a co-ordinated policy on taxation, expenditure and borrowing through consultation and, if necessary, through legislation.

CHAPTER XXXII

CENTRAL FINANCE

1. Introduction. In the last chapter we studied the factors which have influenced the Indian financial system, and we traced the development of the relations between the Central and provincial finance. The present chapter will be devoted to the study of Central finance. The principal heads of the revenue of the Government of India are Customs, Central Excise, Corporation Tax, Income-tax, Salt and Opium. Other sources of revenue are Railways, Irrigation, Posts and Telegraphs, Debt Services, Civil Administration, Currency and Mint, Civil Works and Miscellaneous public improvements, Defence Services, Tributes from Indian States, etc.

Now a word about each of the principal heads of revenue.

2. Customs. Customs duties include both import duties and export duties. Before the Mutiny the import duty was below 5 per cent., and on account of the financial stringency following the Mutiny, it had to be raised to 10 per cent. But on the agitation of the interested industrialists in England and the preaching of free-traders, the duty was first reduced in 1875 to 5 per cent. and abolished in 1882 altogether.

The exchange difficulties of the Government of India compelled them to reimpose 5 per cent. import duty in 1894. This evoked a storm of protest from Lancashire, and to propitiate Lancashire manufacturers 5 per cent. excise duty was levied on yarn of 20 counts and above. As this would not give them satisfaction, import duty on cotton piecegoods was reduced to 3½ per cent., and a similar excise duty on cotton piecegoods made in India was also levied. This was considered to be an abuse of political power, and was justly made a subject of strong criticism by the Indian leaders. Benefit to Manchester was doubtful; but injury to the growing textile industry of India was certain. The coarse Indian piecegoods could possibly not compete with finer Manchester cloth. The excise duty was, therefore, uncalled for. Further, it benefited the richer classes using finer cloth and injured the poor masses who used coarse Indian cloth.

The import duties had to be raised later from time to time according to financial exigencies. But the cotton excise duty remained 3½ per cent. till it was abolished in 1926 on the recommendation of the Legislative Assembly. The import tariff was recast completely during the war (1914-18) and was changed into a protective tariff in 1924, when a policy of discriminating protection was adopted. The customs duties have been the mainstay of the Government and have come to their rescue whenever there was financial stringency, *e. g.*, in the early 'thirties. For 1949-50 the yield ofcustoms was put at about Rs. 107·25 crores.

The Ottawa Trade Agreement of 1932 and Indo-British Trade Agreement of 1939 introduced the principal of Imperial Preference.

The only export duties have been on hides and skins and jute. In 1948-49 export duty was levied on oil-seeds and vegetable oils. But it was abolished in the 1949 50 budget. However, new export duty on cigars and cigarettes was levied in 1949-50.

Customs offend against the canon of equity, for they press more heavily on the poor than on the rich. This view is supported by the analysis given by the Indian Taxation Enquiry Committee in 1925. According to a memorandum issued by the Office of Economic Adviser to the Government of India, the "weight of import duties presses most heavily on goods of general consumption, less severely on luxury goods and least on capital goods and raw materials."[1]

As India becomes industrialized less reliance will have to be placed on customs duties as a substantial source of revenue and a greater reliance will have to be placed on excise duties.

To fight inflation certain changes were made in the tariff by an Ordinance issued in November, 1948, by which duties on certain luxury articles were raised. This process was continued in the budget for 1949-50. Accordingly a surcharge was levied on liquor equivalent to the basic duty, and the surcharge on fabrics containing silk, art silk, woollens and their mixtures and cotton knitted apparel was raised from one-fifth to one-tenth, and the surcharge on artificial silk yarn and thread, earthenware and china was doubled ; the duty on paper, stationery articles, glass and glassware, cutlery, metal furniture, photographic appliances, clocks and watches was raised. The import duty on motor spirit was also raised from 12 as. to 15 as. per gallon.

3. **Income-Tax.**—Income-tax was first introduced in 1860 to meet the financial embarrassment caused by the Mutiny, Changes were made from time to time to suit the financial requirements of the year ; but important changes were made first in 1903 when the minimum taxable income was raised from Rs 500 to Rs. 2,000, in 1916 when scales of rates were revised, and the principle of progression was applied. In 1931 the minimum exemption limit was lowered to Rs. 1,000, and surcharges on income-tax and super-tax were levied, and super-tax was introduced. The minimum exemption limit of Rs. 2,000 was restored in 1935 which was raised to Rs. 3,000 in 1948 The surcharges were abolished in 1939 and reimposed since 1940-41.

In 1935, the Government of India appointed a committee to conduct an exhaustive inquiry into the Indian income-tax system. As a result of these recommendations an important measure was

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1, Jathar and Bari—Indian Economics, Vol. II, 1941, p. 516, passed in 1939. *The Income-Tax Act* of 1939 introduced several necessary reforms. It substituted what is called the *'slab'' system in place of the previous "step" system*. According to the previous system, the whole income was assessed at the same rate; but under the new system, the income is divided into bits and each successive slice is taxed at a higher rate. This system is calculated to increase the yield of income-tax, mulct the wealthy minority more and afford relief to the poor tax-payer. The Indian income-tax is now more equitable. Besides, the Act contains provisions designed to stop all loopholes, and make evasion of the Income-Tax Law difficult. It makes it obligatory on all persons earning more than Rs 2,000 to submit returns of their income. The failure to ask for the form and send in the return makes them liable to a penalty. The Act also makes the aggregate of the income of husband and wife taxable. The whole procedure was made up to date and efficient. The Act undoubtedly makes a great improvement in our income-tax system. The Indian income-tax rates are low as compared with those charged in Europe.

A very important improvement in the income-tax was made in 1945-46 budget, *viz.*, a distinction was made between earned and unearned incomes. Relief to the extent of one-fifth of the income, subject to a maximum of Rs 4,000, is given in the case of 'earned' incomes. It is only fair that a person who has actually to work to earn his income should be treated more leniently than the idle rich whose holdings in joint stock companies, land or bank accounts automatically bring in a stream of income without his having to raise his little finger.

There are still two defects in our income-tax. First, our system does not take into consideration the number of dependents. The unit is not the individual but the family. Equity demands that of two men having the same income, the man with the larger family should be called upon to pay less. Such abatements or family allowances are given in England. It is pointed out that in India the family being a universal phenomenon, almost everybody will have to be given an abatement. This will involve administrative difficulties, and add to the cost of the administration of income-tax. Secondly, agricultural incomes, however big, are still exempt from income-tax in many provinces. This is a great lacuna in our system. Both these reforms are very necessary.

During World War II, Excess Profits Tax at the rate of 50% above a taxable minimum of Rs. 30, 00 was levied on extra profits made during the war. It was later raised to 66⅔%. A surcharge on income-tax was also levied first at the rate of 25% and later raised to 33⅓%. The E.P.T. was abolished on 31st March, 1946. However, Business Profits Tax was introduced in 1947-48 budget. The business Community protested against it on the ground that it would diminish incentive for investment and impede industrial reconstruction This tax, however, forms a part of the revenue system of the U.K.

Next to customs, income-tax is the most important source of revenue for the Central Government and it was estimated to yield about Rs. 113·19 crores in 1949 50.

Rates of Income-Tax for 1948-49 : (a) In the case of every individual, Hindu undivided family, unregistered firm and other association of persons when the total income exceeds Rs. 3,000, the basic rates are as under :—

	Rate (In the rupee)		
	Rs	As	Ps.
On the first Rs. 1,500 of total income ...	Nil		
On the next Rs 3,500 ,,	0	1	0
,, ,, 5,000 ,,	0	2	0
, ,, 5,000 ,,	0	3	0
On the balance of the total income ...	0	5	0

(b) In the case of every company and registered firm whatever the income rate is 2 as. 6 ps. in the rupee.

Rate of Super-Tax

(a) In the case of every individual, Hindu undivided family, unregistered firm and other associations of persons—

	Rate (In the rupee)		
	Rs.	As	Ps.
On the first Rs. 25,000 of total income ...	Nil		
On the next Rs. 15,000 ,, ...	0	2	0
,, ,, 15,000 ,, ...	0	3	0
,, ,, 15,000 ,, ...	0	5	0
,, ,, 15,000 ,, ...	0	6	0
,, ,, 15,000 ,, ...	0	6	6
,, ,, 15,000 ,, ...	0	7	0
,, ,,1,00,000 ,, ...	0	9	6
,, ,,1,00,000 ,, ...	0	10	0
On the balance of total income ...	0	10	6

(b) In the case of companies 1 a. 6*ps*. in the rupee on the total income.

For 1949-50 it is proposed to give some relief to income-tax payers in the lowest and medium income groups. The tax on incomes up to Rs. 10,000 has been reduced by a quarter of an anna in the second slab.

4. Taxation of Agricultural Incomes. The greatest gap in our tax system is the continued exemption of agricultural income-tax. The case for subjecting agricultural incomes to a tax is so convincing that it is really surprising why they still enjoy this immunity. "On grounds of equity," remark the Indian Taxation Enquiry Committee, "there is no reason why the surplus of the larger landholder should be exempt."[1]

Reference to history does not support any claim for this exemption, because agricultural incomes were liable to income-tax between 1860 and 1873 with a short gap of four years. The argument that the agriculturists pay land revenue in lieu of income-tax and that if they had to pay the income-tax too, it will amount to double taxation, is also not convincing. The land revenue demand is fixed permanently in the case of some and for a long period in the case of others; it is not graduated and does not at all respond to the variations in the value of the agricultural produce. Therefore, there is no ground whatsoever for the continued exemption of agricultural income from taxation.

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[1] Indian Taxation Enquiry Committee Report, 1924-25, p. 223.

The taxation of agricultural income will strengthen the finances; it will rectify to some exent the regressive character of our taxation; and it will equalise the burden of taxation between the agriculturists and non-agriculturists on the one hand and the landlord and the cultivator on the other. It will tax the non-agricultural income of a landholder at a higher rate. It will also, incidentally, put a stop to the tendency of investing the savings in land to escape taxation. Now that, on account of the War, the value of the produce of land has increased enormously, the tax-gatherer must claim his share out of the enhanced agricultural profits.

The assessment of agricultural profits is no doubt difficult, but the difficulty is not peculiar to India. We have got a very elaborate organization for keeping land records and for the administration and collection of land revenue. We should, therefore, have much less administrative difficulty in the matter. So far only vested interests have stood in the way. Even a very moderate proposal of the Government of India in 1918 to take agricultural income into account for determining the rate for their income-tax was turned down, though the Government of India was prepared to face the new administrative difficulty. One would wish the more sound and fairer sense had prevailed in the Indian legislatures where the land-owning interests predominate. Let us hope that our new legislators will rise to the occasion. Already in Assam, Madras, West Bengal, the U. P., and Bihar and Orissa agricultural incomes have been taxed. East Punjab is also contemplating to introduce agricultural income tax.

5. **Central Excise Duties.** The Government of India impose duties on steel ingots, motor spirit and kerosene. But the most important of the excise duties were imposed in 1934, *viz.*, on sugar and matches.

The excise duty on sugar was levied at the rate of 13 as. per cwt. on khandsari sugar, and Rs. 1-5 per cwt. on other sugar. These rates were raised to Rs. 1-5 and Rs. 2, respectively, in 1937. In 1940, as a war measure, the duty on sugar, other than khandsari, was raised from Rs. 2 per cwt. to Rs. 3. The measure was naturally criticized by the sugar interests as nullifying protection granted to the sugar industry only two years before, and it was said that it would impede the fuller development of the sugar industry. The Government's case was that the gap caused by the loss of revenue on the imports of sugar on account of protection had to be filled up, and that the duty would check the hasty and unhealthy growth of the industry.

On matches the excise duty was levied at the rate of Re. 1 per gross of boxes or booklets containing an average of less than 40 sticks

Rs. 1-8 if the number was more than 40 but less than 60, and Rs. 3 if the number was more than 60. In 1941, the rates were doubled as a war measure. In the 1946-47 budget the excise duty on matches was reduced from Rs 2-8 to Rs. 1-12 per gross for boxes containing between 40 and 50 matches. But in the 1948-49 budget the duty has been again raised to Rs. 2-8 per gross on all boxes containing up to 50 matches. The yield for 1949-50 was estimated at Rs. 57·75 crores including Rs. 5 crores from the recently imposed excise duty on cotton cloth.

The chief reason for the imposition of these excise duties was the necessity of balancing the budget which compelled the Government of India to look round for additional sources of revenue.

In 1948-49 two important excise duties were levied; 50% excise duty on tea and coffee, and one excise duty of Rs. 7 per cent on vegetable ghee. In the budget for 1949-50, the excise duty on sugar was raised from Rs. 3 to Rs. 3-12 0 per cwt. From January 1949 an excise duty of 5% *ad valorem* was levied on superfine cloth and 6¼% on fine cloth and one pice per yard on coarse and medium cloth

Thus has come back the most hated cotton excise duty which was first levied in 1894, and against whom Indians continued vehemently to protest till it was finally abolished in 1926. It has a long and bitter history. The Finance Minister put in an elaborate defence in support of its re-imposition. The times have now changed. It is now not levied by an alien Government; the duties on imported cloth are too high to permit any competition with the home-made cloth; and above all, the loss resulting from the abolition of salt duty has to be made good by finding out some other equally table source of revenue. Having universal consumption, cloth offers itself as the most obvious choice for a tax on consumption. Moreover, the duty is also likely to assist the handloom industry. The incidence of the duty will be negligible.

Excise duty on motor tyres was also increased and match excise duty was rationalised.

6. Salt Tax. This was the most unpopular tax in India[1] Mahatma Gandhi selected this tax for the purpose of his civil disobedience campaigns. The Government income was derived from the sale of Government salt, excise duty on salt manufactured in India and import duty on salt. The tax was estimated to yield Rs. 9 crores.

Salt tax was kept up on the ground that it was a light tax, that it was an old tax and that it enabled everybody to contribute a small sum to the State Exchequer. This gave the masses an interest in civic affairs, and was the only tax by which the Indian masses could be approached. There was not much in these arguments This was not the only tax which was paid by the masses. Most of the taxes in India are borne by them. And this should be more than enough to create civic responsibility in Indian masses, and they could well have been spared this last straw. With due deference to Mahatma Gandhi's wish salt tax was abolished in the budget of 1947-48. It has meant an annual loss of about Rs. 9 crores, but the Indian sentiment was satisfied, and a long-standing grievance of the Indian National Congress was removed.

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[1] For history of the Salt Tax and arguments for and against it see Indian Taxation Enquiry Commitee Report, Paras, 164-180.

7. **Opium** The Government in India has got a monopoly of opium both in production and distribution. Poppy can be grown only under licence, and the licensee has to sell the entire supply to the Government. It is manufactured in Government factories. There are also special arrangements with States in Central India and Rajputana which supply opium in crude form, which is then refined in Government factories.

The Government revenue is derived from the monopoly profits arising out of the sale of Government opium, export duty on opium sent out of Indian States, and the vendors' fee. The bulk of the revenue under opium is from export to foreign countries.

Under the humanitarian activities of the League of Nations this source of revenue has almost dried up. In 1907 it was agreed to stop export to China on Government account by 1914. In 1926 Government of India promised to reduce by 10 per cent every year export of opium to Far Eastern countries for other than medical and scientific purposes, so as to extinguish all exports in 1935. This promise has been honoured. China had also agreed to make a corresponding reduction in the production of opium, but it is said she did not carry out her part of the agreement. India used to get Rs. 8 crores on average per year in the years preceding the war (1914-18) and in 1949-50 was estimated to yield only Rs. 1,18 lakhs.

Production and consumption of opium in India is one of the blackest marks against India. It is really regrettable that we still have some of this tainted revenue.

8. **Railways.** The railways were a losing concern till 1900, when they began an era of profits and gave a welcome support to the Government revenues. We have already treated in detail the problem of railway finances. They were estimated to make a contribution of Rs. 4·72 crores to the general budget in 1949 50.

9. **Posts and Telegraphs.** This is not a very important source of revenue. This department is being run more for publico convenience than for profit. For 1949-50 net receipts were estimated at Rs. 1·63 crores.

10. **Death Duty.** Distinction may be made between the Estate Duty and Succession Duty. Estate duty is levied when on the death of a person his estate passes on to his heirs and it is graduated with reference to the total value of the property left by the deceased. The Succession Duty, on the other hand, takes into consideration the share of each individual successor and not the total

value of the estate. It is graduated generally with reference to the windfall element which increases with the distance of relationship between the deceased and the beneficiary.

In almost all progressive States death duties, in one form or another, occupy an important place in the system of taxation. In India also the Taxation Inquiry Committee (1924-25) recommended their imposition. But the implementation of these recommendations was deferred as it was expected that a Statutory Commission would soon examine the whole constitutional question. These constitutional discussions, inquiries and conferences culminated in the passing of the Act of 1935. But according to the findings of the Federal Court there was no provision in the Act for the imposition of such a duty. The Act was, therefore, amended to confer the power of imposing such a duty on Indian legislatures. According to this amendment the imposition of an estate duty has been placed within the purview of the Central Government in respect of property other than agricultural land, and within that of the provincial Governments in respect of the agricultural land. When levied by the Central Government the proceeds are to be distributed among the provinces according to the principles laid down in a Central Act.

The Estate Duty Bill was introduced in the Legislative Assembly (Central) in 1946. But it lapsed on account of political developments. A new Bill was introduced in the Dominion Parliament in 1948.

There were two objects kept in view in bringing this Bill : (*i*) To reduce great inequalities of wealth distribution so that wealth does not concentrate in a few hands ; and (*ii*) to fortify the financial position of the provinces so that they may have funds enough to carry through their post-war development schemes and to enable them to improve their existing social services. During the war huge private fortunes have been made by some people in spite of E. P. T. and other wartime taxation. The passing of the Bill, it is hoped, will place India on the road to more equitable distribution of national wealth.

The charging clauses of the Bill generally follow the provisions of similar Acts passed in the United Kingdom. The Estate Duty will be charged on the total value of the property left by the deceased whether according to his own disposition or as a result of settlement made by the others. The governing principle is that the title of the State to a share in the accumulated property of the deceased is an anterior title to that of the interests to be taken by those who are to share it. The machinery of assessment is an adaptation of the provisions of the Court Fees Act, 1870, dealing with probate duties levied in the shape of court fees.

There are two gaps yet to be filled up : (*i*) The rates of duty ; and (*ii*) the distribution of the proceeds among the provinces. The rates will be fixed from time to time by Central legislation. The basis of distribution of the proceeds will be settled in consultation with the provinces and the decision will be embodied in a Central Act.

Not even a rough and approximate estimate of the yield of the duty is possible as it will depend upon the rates of the duty.

The other heads of revenue are of minor importance.

11. Central Expenditure. Besides the railways, the chief items of expenditure are Defence Services, Debt Services and Civil Administration. The public expenditure in India has continued to swell and has grown to huge dimensions. It has increased in the present century from Rs. 88 07 crores in 1899-1900 to Rs. 339 87 crores in 1948-49. For 1949-50, the total expenditure was estimated at Rs. 322'53 lakhs. The Defence expenditure which constitutes roughly half of the total expenditure was put at Rs 155·43 crores in 1948 49 and estimated at Rs 155·37 crores for 1949-50. Since partition, the Defence expenditure has gone up due to political uncertainty prevailing in the world abroad, trouble on our borders, and the unsettled conditions prevailing at home. In particular, the uneasy Indo-Pakistan relations, police action in Hyderabad and the operations in Kashmir are responsible for increase in the Defence expenditure. Our efforts in building up the Navy and the Air Force and modernising the army have worked in the same direction.

The Civil expenditure has also gone up to giddy heights since the war commenced in 19 9. It was Rs. 24·8 crores in 1938-39 and went up to Rs. 144·5 crores in 1948-49. Although the war is over yet the departments created during the war have not been liquidated. The pay-roll has continued to swell. This is the necessary incidence of democracy. The creation of embassies—the insignia of an independent State—, relief and rehabilitation of the refugees, the development scheme and food subsidies are other important factors responsible for the abnormal increase in our Civil expenditure. The number of ministries expanded from eight in 1938-39 to eighteen in 1948-49. The secretariat too correspondingly multiplied. There is a continuously flowing stream of delegations to international conferences.

The Economy Committee appointed by the Central Government in 1949 recommended, *inter alia,* a cut of Rs. 6 crores in the cost of administration, postponement of certain schemes involving a non-recurring expenditure of Rs. 14·7 crores and an annual recurring expenditure of Rs. 1·6 crores, and abolition of cultural and labour attaches in the embassies. No new embassies are to be set up. No new State enterprises are to be launched until those already planned involving a cost of Rs. 145 crores are successful. It is necessary that the economy at the Centre is matched by economy in the provinces. The Economy Committee has not recommended any striking reductions. They are "so many mickles not amounting to a muckle".

12. Central Finance During the War.[1] The recent Indian finance, in common with the finances of other countries of the world, has been dominated by the global war whose expenditure in countries like the U.S.A., the U K., and the U.S.S.R reached astronomical figures. In India the financial burden rose nearly six times the pre-war level. The total expenditure charged to revenue in 1938-39 was Rs. 85·15 crores, whereas for 1944-45 it was Rs. 512·65 crores. The total defence expenditure in India which was only Rs. 53.crores. in 1939-40 shot up to about Rs. 900 crores in 1944-45 and was almost the same in 1945-46. One would have shuddered to think of such a figure before the war. There was also a phenomenal expansion in the revenues too. Since 1939 there has been an increase of 329 p.c. and 122 p.c , respectively, in Central and provincial revenues.

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[1] See Indian Information of June 1, 1945.

Let us examine the two sides of the war balance-sheet, *viz.*, the expenditure and the revenue.

Expenditure During the War. During the six years of the war the aggregate expenditure charged to revenue was Rs. 1598 crores. On the pre-war level it should have been only Rs. 511 crores. This spectacular increase is solely due to an increase in the defence expenditure, which was only Rs. 46 18 crores in 1938 but which rose to Rs. 397·23 crores in 1944-45 and Rs. 391·35 crores in 1945-46. This is indeed a big jump. But even these figures do not give a complete idea about the total defence expenditure, as they do not include the amounts spent by His Majesty's Government under the financial settlement between the Government of India and His Majesty's Government and the Lend-Lease aid received from the U.S.A.

The Revenue Side. In order to meet this huge expenditure, the Government of India had to resort to all the usual devices for raising funds, *viz.*, increasing the rates of existing taxation, the imposition of new taxes, the raising of loans and, finally, creating money or inflation. The total revenue during the six years of war comes to Rs. 1113 crores which should have been only Rs. 567 crores at the normal pre-war level, which means an increase of 100 p.c. Extra taxation accounted for two thirds of this increase and the rest was a normal growth.

The supplementary budget of 1940 levied a surcharge of 25 p.c. on income-tax, super-tax and corporation tax, which was raised to $33\frac{1}{3}$ p.c. in 1941-42 and to 50 p.c. in 1942-43. The rates of corporation tax, income-tax and surcharge on super-tax were raised in 1943-44 and surcharge on income-tax on certain slabs was raised in 1944-45.

Excess Profits Tax (E P. T.) was levied in 1940-41 at the rate of 50 p.c. on all abnormal war profits above a taxable minimum of Rs. 30,000 ; the rate was raised to $66\frac{2}{3}\%$ in 1941-42. In 1944-45 under the compulsory deposit scheme the whole of the excess profits remaining after F. P. T. and income and super-tax have been paid was immobilised. The industrialists objected to the E. P. T. on the ground that it made it impossible for them to build any reserve for reconditioning of their plants after the war. The war has meant a great strain and wear and tear to the plants, some of which must be replaced as soon as possible. The tax held up the rationalisation or efficiency schemes and thus impaired the competitive strength of the Indian industry. In the absence of this tax they would have faced the post-war competition with confidence. Even Sir Archibald Rowlands admitted in his budget speech for 1946-47 that the E.P.T. was a thoroughly bad tax by all the canons of taxation and he had to discontinue it on earnings arising after 31st March, 1946. It was only an emergency measure. The abolition of E. P. T. was a welcome relief to Indian industry. Other concessions to industry included special initial depreciation allowances of 10 p.c. on new buildings and of 20 p.c. on new plant and machinery and to allow for income-tax purposes expenditure on scientific research.

Several other taxation measures were necessitated by the war. Sugar excise and import duties were raised from Rs 2 to Rs 3 per cwt in 1940-41. Petrol tax was raised from 10 as. per gallon to 12 as. The supplementary budget in November 1940 provided for an increase in postal and telegraph rates and telephone rentals which were increased still further in 1943-44. The excise duty on matches was doubled in 1941-42. A new excise duty on pneumatic tyres and tubes was introduced. The import duty on artificial silk yarn was increased from As. 3 per lb. to As. 5 per lb. An emergency surcharge of one-fifth was levied on all customs import duties in 1942-43. Next year, two new excise duties were introduced, *viz.*, on tobacco and on vegetable products. The excise duty on tobacco was further increased in 1944-45 and three new excise duties were introduced in that year, *viz.*, betelnut, coffee and tea.

As a result of the taxation measures adopted during the war the tax structure of India has undergone a fundamental change. The Indian tax system has become decidedly more progressive. The direct taxes have come to play a much more important part. The regressive character of the Indian tax system has been considerably toned down The aggregate tax on income increased from Rs. 17·23 crores in 1938-39 to Rs 190·5 crores in 1945-46 which means a 12-fold increase. In 1938-39 the proportion of taxes on income to total tax revenue was 226 p.c. but was as high as 70 p.c. in the revised budget for 1944-45 and 62 3 p c. in 1945-46 The yield of customs revenue in spite of 20 p c. general surcharge showed a decline due to import restrictions and shipping difficulties. The excise revenue has shown unusual buoyancy. Their yield in 1938-39 was Rs. 8 66 crores, but it jumped up to Rs. 39 07 crores in 1944-45 and Rs 49 crores in 1945-46. In course of time the excise duties may be expected to wrest a place of importance from the customs revenue. The yield of customs duties was Rs 40 51 crores in 1938-39. It dropped to Rs. 26 20 crores in 1942-43, but the estimate for 1945-46 rose to Rs. 55·25 crores. These are a few indications to show that a bit of a revolution has been effected in our tax system.

13. Salient Features of 1949-50 Budget. The Indian Finance Minister now-a-days is in an unenviable predicament. In 1949 50, he has to cover a revenue deficit of Rs. 14·79 crores and at the same time grant relief in taxation to higher income groups in order to provide incentive for saving and investment, and to the lower income groups in order to alleviate distress due to the rise in the cost of living. This state of dilemma is reflected in the budget proposals for 1949-50.

On the expenditure side, the Defence Budget shows an increase of Rs. 1·94 crores over the revised estimate for 1948-49. This is mainly due to the Kashmir operations. There is an additional provision in the budget for the expansion of the Navy and Air Force. Rs. 9·85 crores have been provided for the relief and rehabilitation of the refugees. About Rs. 20 crores were spent in this connection in 1948-49. The food subsidies and bonus on procurement are estimated to cost Rs. 32·97 crores. The budget provides for Rs. 26·81 crores for grants and Rs 49·25 crores for loans to provinces for financing development schemes. For Central schemes a provision of Rs. 12·83 crores has been made in the revenue budget and Rs. 24·97 crores in the capital budget.

The new taxation proposals are calculated to allay fears of the investing public and to create conditions favourably for industrial development. Accordingly various reliefs in taxation have been offered. In the field of direct taxation, the Capital Gains Tax has been abolished. Some relief has been given to income-tax payers in the lowest and medium income groups Some relief has also been afforded in super-tax. Relief by way of depreciation allowances is also promised to those who were prepared to renew and requip their capital assets immediately. For all new plants and machinary installed during the five years from April 1, 1948, depreciation allowances at double the ordinary rate will be allowed. Also if by April 1, 1953, there is a drop in the general level of prices, the difference between the written down value of the assets and the corresponding value at the redcued price will be allowed as additional depreciation allowances. For existing plant and machinery extra depreciation allowances will be granted for increased wear and tear if triple shifts are worked.

In the field of indirect taxation the export duty on oil seeds and vegetable oils is abolished, because these duties hamper the maintenance of our exports. A rebate of half the duty is given on aviation spirit used by air companies. The object is to assist civil aviation and to foster the development of flying clubs. In order to aid industries a relief in customs duty will be given on a number of imported raw materials.

Among the new taxes imposed to cover the deficit may be mentioned increase in postal rates additional customs duties on luxury items, new export duty on cigars and cigarettes, increase in duty on motor spirit, increase in export duty on betelnuts, increase in excise duty on sugar, and motor tyres, excise duty on cotton cloth and rationalisation of match duty.

The increase in postal rates is bound to be resented by the general public. As a result of increase in excise duty on sugar and the imposition of excise duty on cloth, the price of these essential commodities is bound to go up, and it will mean a set-back in the anti-inflationary fight. But in view of the fact that the levels of direct taxes and import duties are already so high that further increase is considered inadvisable. Export duties have to be avoided, because of the necessity of earning foreign exchange. We are thus left only with excise duties as a source of additional revenue.

It is really gratifying that the budgetary equilibrium has been preserved with comparative ease in spite of powerful forces of unsettlement. Reliefs in taxation are also gratifying and are sure to give a fillip to saving and investment. Without such reliefs business activity would have remained at a low ebb and industrial development would have been retarded. The considerable reduction in the deficit for 1948-49 and the conversion of the deficit for 1949-50 into a surplus, however small, without any abnormal increase in taxation shows the resiliency of our financial structure even though our taxable capacity is notoriously poor. Commenting on this the Indian Finance observes: " When one contrasts the comparatively stable character of the increase in revenue with the emergent and transitory nature of the increase in expenditure, one will recognise the large elbow room that the Government can expect to have at a later stage for adjusting the conflicting claims either for relief in taxation or increase in appropriation." But public opinion will not be completely satisfied unless expenditure is considerably curtailed.

The budget has been balanced but only technically. Taking the revenue and capital budgets together there is a big gap of Rs. 133 65 crores. It is, therefore, really a deficit budget and cannot be considered an anti-inflationary budget. Further, as the Finance Minister himself says, " A balanced national budget may, and often does, cover a multitude of ill-balanced family budgets. In this respect, we have still formidable task ahead of us, the task of fighting wants sickness and poverty and raising the living standards of the millions to whom the emancipation of the country will be a mockery unless it is translated in terms of opportunities for a fuller, freer and better life.

14. The Budgets at a Glance

Revenue

(In lakhs of Rs.)

	Revised. 1948-49	Budget. 1949-50
Customs ... ... —	117,25	107,25
		+3,98*
Central Excise Duties — ...	50,25	+11,52
		+11,52*
Corporation Tax ... — ...	579,2	41,81

*Budget Proposals.

Taxes on Income other than Corporation Tax	100,75	113,19
		−6,10*
Opium	1,08	1,18
Interest	1,42	1,19
Civil Administration	7,05	6,78
Currency and Mint	13,05	9,70
Civil Works	1,02	1,02
Pre-partition Receipts	13,40	...
Other Sources of Revenue ...	6,52	5,37
Posts and Telegraphs		
Net contribution	3,73	1,63
		+2,34*
Railways		
Net Contribution ...	7,34	4,72
Deduct—Share of Income-Tax revenue payable to Provinces	41,7[illegible]	−43,85
		+3,00*
Total Revenue	338,23	322,98
Expenditure		
Direct demands on revenue — ...	9,88	10,06
Irrigation	8	12
Debt Services	39,91	39,20
Civil Administration	38,35	40,50
Currency and Mint	2,76	2,[illegible]3
Civil Works	8,15	7,32
Pensions	2,68	2,68
Miscellaneous—		
Expenditure on refugees	19 45	9,85
Subsidy on foodgrains	31,96	32,97
Other expenditure	5,30	5,12
Grants to Provinces, etc.	2,96	2,96
Extraordinary items	2,21	2,06
Defence Services (net)	155,43	157,37
Pre-partition Payments	20, 5	10,00
Total Expenditure ...	339,87	322,53
Deficit ...	—1,55	Surplus+45

15. Recent Financial Trends. For some years the customs revenue is likely to register an increase as the shipping situation becomes easy. There is huge pent-up demand for both consumer's goods and producer's goods. The imports are bound to increase. But as industrialisation in India gathers momentum, this source of revenue will contract and the excise duties will become more important.

The yields from income-tax, super-tax and corporation tax are likely to go up as India gains a measure of industrial prosperity.

Direct taxation will assume still greater importance, and the Indian tax system will shed its regressive character and become more and more progressive, and hence more equitable.

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*Budget Proposals.

Greater reliance will be placed on public borrowing to finance post-war development schemes.

The higher scales of salaries that have been fixed may put the Government in fairly difficult position as deflationary tendency sets in.

Sir Jeremy Raisman, in his budget speech of 1944, pointed out that after a year or two of deficits, he expected a surplus of Rs. 100 crores per annum in the 4th or 5th year of the war. An all out borrowing programme would bring nearly Rs. 1,000 crores in the first five years for financing the post-war development schemes. Among the possible new sources of taxation he mentioned Estate Duty—a duty on property other than agricultural property, agricultural income tax, the expansion of sales or turnover tax, and finally revenue from some of the key industries which may be nationalised.

16. Taxable Capacity. The term taxable capacity is capable of being used in different senses. In the absolute sense it means the limit beyond which no tax-payer can possibly pay any further tax; it may also mean that for each tax there is an optimum point beyond which the tax should not be increased; otherwise its yield will begin declining.

Attempts have been made to estimate a country's taxable capacity in order to explore further avenues of taxation. Sir Josiah Stamp would measure it by the surplus of production over consumption, *i.e.*, by savings. But it is not possible to measure taxable capacity with any precision. As a matter of fact, taxable capacity is not anything definite or a rigidly fixed quantity. It is fluid and it varies with circumstances. It very largely depends upon the psychology of the tax-payers. A popular leader at the helm of the State affairs can galvanize public spirit and enthusiasm so that the response to appeal for financial help is astonishing People cheerfully pay taxes to further a popular cause which otherwise might have evoked a rebellion. A responsible Government is in a happier position in tapping the potential taxable capacity of the nation.

In India there are constitutional reasons for the inadequacy of public revenues. As Sir Walter Layton remarks, " Members of neither the provincial nor the Central legislatures are willing to incur the unpopularity by voting increased taxation so long as there are no means of ensuring that the revenue will be spent on services which they might wish to develop or so long as it can be argued that resources might be obtained by reducing expenditure on services not under popular control (such as the army)"[1]

The taxable capacity thus depends on the will to pay and anything that affects this will. The rate of the tax, the method of collection, in particular, the purpose on which money is spent and distribution of wealth in the country are some of the important factors that determine the taxable capacity. Further, it is held that private property is a public trust and must be surrendered at the demand of the State.[1] From this point of view the question of capacity does not arise and the taxation is governed by the necessities of the State.

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[1] Indian Statutory Commission Report, Vol. 2, pp 209-10.

As for the taxable capacity of India in the sense in which Stamp uses the term, it is pointed out that the consumption in India is very small as the standard of living is extremely low. As the taxable capacity is the measure of the difference between production and consumption, it is inferred that our taxable capacity is large. This is obviously a wrong conclusion, for the production in India is also very small. There is a certain civic minimum of the standard of living, not for the individual but for the family, which must be ensured to the people so that they do not merely exist but live and work efficiently. A tax should not impair the productive capacity of an individual by encroaching upon the bare necessaries of life.

Sir Walter Layton points out that taxation in India forms only 8 per cent. of the national income, whereas it is 20 per cent in Britain and 20 per cent. in Japan. According to him, there are large accumulations of wealth which can be taxed without tax becoming intolerable. He says: " In spite of the widespread poverty in India, I see no reason to doubt that the public revenues of India can be substantially increased without taxation becoming introlerable "[2] The budgets, since the war, bear ample testimony to the potential taxable capacity of India. But this capacity should be wisely exploited. The only justification for exploiting it will be the increased expenditure on the beneficent functions of the State, and after the military budget has been considerably scaled down.

17. Burden of Taxation and its Distribution. There has been a lot of controversy on the subject whether India is lightly or heavily taxed. It has already been mentioned that tax in India is only 8 per cent. of the national income whereas it is as high as 20 per cent. in Japan and 20 per cent. in Britain. The tax burden per head in 1939-40 came to only Rs. 5-0-2. The tax burden must be now much higher on account of additional taxes levied to meet the war expenditure. It may be put at Rs. 6 per head nearly. The inference is drawn that India is much more lightly taxed than the other advanced countries. But this is not a vaild inference.

The figures given above, no doubt, would indicate a lighter burden of taxation in India. But we cannot go by these figures alone. The level of taxation cannot be considered without any reference to the nature of public expenditure. If the citizens do not receive any reasonable return in the shape of beneficent services rendered by the State, even a light tax becomes burdensome. If, on the other hand, the State performs numerous social services for the individuals, even high taxes are ungrudgingly paid. This only means that the people have decided to fulfil more of their wants collectively rather than individually. If the State provides free education, free medical aid, undertakes to look after the dependants of the deceased bread winner, and train and find a job for every young man, why, it may tax away half of our incomes ; and if it goes further and undertakes to provide all our requirements of food, clothing and others and provide free cinemas and such other amenities, it can appropriate in taxation even 75 per cent of our income without the taxation becoming oppressive.

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[1] Stamp—Principles of Taxation, p. 134.
[2] Indian Statutory Commission Report, Vol 2, p. 208.

In other advanced countries State grants poor relief, provides insurance againt sickness, unemployment and old-age pensions, makes excellent sanitary arrangements, builds and maintains good roads, and provides educational and medical facilities on a liberal scale. There the taxes cannot be burdensome. But in India, where the bulk of the revenue is swallowed up by the military expenditure, debt services, and civil administration and little is left for social services of the type mentioned above, even the small amount of tax is grudgingly given. Further, a higher percentage of tax on income in rich countries may actually mean a lower burden of taxation, whereas a lower percentage of the poor country may mean that it is more burdensome. This is an elementary principle of progressive taxation. Therefore, India is not so lightly taxed as is sometimes supposed.

But the iniquity, if any, in the tax system does not lie in the figure of taxation but in the distribution of the tax burden and it is in this respect that Indian tax system is the greatest culprit. Most of the Indian taxes press more heavily on the poor, *e.g.*, land revenue, customs, excise duties on matches. Land revenue is positively regressive. Only income tax, tax on motor spirit, and taxes on luxuries in the import schedule fall on the rich. On the whole, the burden on the poor is much more than on the rich This is the opinion of the experts. The Indian Taxation Enquiry Committee (1924-25) and Sir Walter Layton in 1930 supported this opinion, and Sir James Grigg declared in the Assembly in March 1938 : "I have no doubt that taxation in this country (India) lets off the rich too lightly and presses the poor too heavily." Prof. K. T. Shah worked out the figures relating to 1923-24 and came to the conclusion that "economically the weaker and less able section bears pecuniarily the largest proportion of the tax burdens in India......While from the average family income of Rs. 1,000 per annum and over, the tax deduction aggregates Rs. 100 crores out of a total of Rs. 600 crores of wealth enjoyed by less than a twenty-fifth of the population, the remainder of Rs. 150 crores is deducted from a total wealth of about Rs. 1,000 or 1,200 crores enjoyed by

26 per cent. of the remaining population."[1]

It is necessary that the burden of taxation should be made more equitable. Articles and services of general consumption should be exempted or taxed lightly and those consumed by the rich should be taxed more heavily. There is a strong case for reduction of land revenue and imposition of tax on agricultural incomes. These are only a few suggestions Several other reforms can be introduced to achieve the same purpose. The Budget porposals for 1946 47 reflect a change for the better in this respect Sir Archibald Rowlands refuted the charge that it was a rich man's budget. He pointed out that whereas before the war the direct tax-payer paid 23 per cent under the new proposal he would pay 55 per cent The moderately prosperous would now pay more than half of their income and the rich man would pay practically 90 per cent.

During the war, the burden of taxation had become almost unbearable. India is a very poor country and the tax burden can only be gradually increased.

INDIAN PUBLIC DEBT

18. Nature of Public Debt. India occupies a very happy position so far as her public debt is concerned, because most of her public debt is productive, and yields a large revenue, much larger than the interest charges. The bulk of her debt is invested in solid and lucrative assets like railways and irrigation work or is lent out to Indian provinces and States. Thus the capital outlay on railways up to 31st March 1946 accounted for no less than Rs. 797 crores on Posts and Telegraphs and other Commercial Departments Rs. 42 crores, Loans and Advances Rs. 144 crores and Cash and Investments Rs. 547 crores, making a total of Rs 1,530 crores. Thus of the total interest-bearing obligations of Rs. 2,159 crores only Rs. 629 crores represent uncovered debt Even this may not be called wholly unproductive, for the defence capital outlay and capital outlay on Central property is not without value.

19. The Increase in Public Debt. The volume of public debt was only £ million in 1792. But the wars that the East India Company waged for conquering and consolidating the British Empire in India meant an increase of debt. On the eve of the Mutiny it stood at £ 60 million ; the cost of the Munity raised it to £ 100 million in 1860. The debt of the East India Company was inherited by the present Indian Government when the authority passed from the Company to the Crown The East India Company had also to be paid dividends till the Company's stock was liquidated in 1874. Most of the debt was unproductive ; but since the Crown had assumed the authority, there was a steady increase in productive debt due to launching of irrigation and railway schemes.

In the pre-war years, Government made vigorous attempts to cut down the amount of unproductive debt through the manipulation of merely an accounting transaction. The surplus revenue was utilized in public works; but it was first supposed to be repayment of the ordinary or unproductive debt and then re-lent for public works schemes. Thus each surplus utilized for public works increased the productive debt, but it at the same time decreased correspondingly the unproductive debt. The result was that in 1914 the unproductive debt was reduced to a small figure of Rs. 3 crores. The unproductive debt would have been extinguished altogether in this way in a few years had not the War of 1914-18 come in with a heavy load of the unproductive debt. War gift of £100 million to the British Government and recurring deficits in post-war years added to our debt. The amount of unproductive debt in one decade (*i.e*, by 1924) rose to Rs. 258 crores, the productive debt rose from Rs 400 crores to Rs. 700 crores during the same period.[1] Mr. Gokhale was a strong critic of this policy of reducing the unproductive debt. In his opinion, there was no need for such unseemly haste, for the amount of the unproductive debt was not large. It would have been better to utilize the revenue surpluses either in giving relief to the tax-payer in the form of lowering or remission of taxes or in extending the scope of beneficent activities like education, public health, etc.

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[1] See Jathar and Beri—Indian Economics, Vol. II, p. 54.

The following figures show how our debt position has changed during the war :—

	31st March, 1939	31st March, 1946
Sterling Loans and Railway Annuities	Rs. 445 crores	Rs. 39 crores
Rupee Loans and Treasury Bills ...	Rs. 484 crores	Rs. 1571 crores
Unfounded debt (Cash Certificates... Provident Funds and Savings Bank Deposits)	Rs. 229 crores	Rs. 320 crores
Total	Rs. 1,158 crores	Rs. 1,930 crores

20. External Element in our Public Debt. There is one aspect of our public debt to which we cannot help referring. A very large proportion of our public debt was external External debt is a dead weight on the country, whereas internal debt merely involves a redistribution of wealth within the country. Interest paid on foreign loan goes out of the country and is a clear loss. The extent of our foreign obligations was estimated by Dr. Keynes in 1908 to be £ 356 million. Dr. Dubey in 1930 put it at £ 600 million[2] and B. Ramchandra in 1934 at £ 612 million.[3] Bulk of the sterling capital is, of course, held by foreigners; but they also hold nearly one-half of the rupee debt. Though the rupee debt is only issued in India, it is not necessarily held by the Indians. It is estimated that Rs. 15 crores go out every year in interest payment. Profits on foreign capital amount to £ 16 million every year[4].

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[1] Datta, B. P.—Economic Problems of Modern India. by Radha Kamal Mukerjee, 1941, pp. 478-79.

[2] Dubey—Indian Public Debt 1930, p. 3

[3] India Analysed Vol. II, p. 87.

[4] Rangaswamy Aiyanger—Some Trends of Modern Public Finance, 1936.

These transactions are likely to evoke adverse comments on our relationship with England. It is, therefore, very gratifying that our sterling obligations have now been wiped out, on account of our financial transactions during World War II. The War has proved a blessing in disguise. Our financial authorities had a very poor opinion about the Indian money market till the war (1914-18) when success of war loans gave them a very agreeable surprise Up to the last war, whenever the Government of India wanted money, it invariably approached the London Money Market. The rates offered were sometimes unduly high. Since they have resorted more and more to the Indian market which has proved cheaper There was another objection to foreign loans. The foreign investors always clamoured for safeguards and impeded constitutional development in India.

21. Funded (Permanent) and Floating Debt.—About 90 per cent. of India's debt is Funded or permanent debt. During the first war (1914-18) an innovation was introduced. Treasury Bills were issued. They are repayable generally after three months. But fresh issues are made when the old issues mature. Treasury Bills now form a very important feature of Indian finance. Such a large amount of floating debt, however, may prove a source of embarrassment to the Government.

22. Debt Redemption. Till recently the Finance Department in India had no deliberate and systematic plan for the redemption of debt. Some sort of sinking fund for the purpose is always desirable not merely because it is better to repay debts, but also because contributions to sinking fund evenly spread out the burden of debt over future generations. It is also neçessary for the maintenance and improvement of the credit of the country.

Lord Wellesley in 1798 experimented with a sinking fund, but the scheme was continued only for a decade. The Government of India did make some haphazard attempts in the direction of reduction or avoidance of debt. Obligations arising out of the purchase of railways were met by a compulsory scheme of annuities, and railways sinking funds were used for the purpose. The annual Famine Insurance Grant was also sometime utilized for the reduction of debt. Reference has already been made to the utilization of revenue surpluses for the reduction of ordinary debt. A sinking fund was created in 1917 when £ 500,000 were proposed to be set aside every year, and also 1½ per cent. of the loan for the purchase and cancellation of securities.

But the credit of having introduced the first systematic and comprehensive scheme for regular debt redemption belongs to Sir Basil Blacket. He proposed setting aside every year Rs. 4 crores plus 1/80th of the excess of the debt outstanding at the end of each year over that outstanding on 31st March 1923. In 1933-34, when the railways on account of loss of income ceased making any contribution to the general revenues, the Blacket scheme was suspended and provision for reduction of debt was reduced to Rs. 8

crores. As the debt is mainly on account of the railways, it was considered fair to stop provision to the general revenues. The railways have, however, resumed contributions ; but the provision for reduction of debt still continues to be Rs. 3 crores every year.

Postal Savings and Postal Cash Certificates are also obligations of the Government of India. Formerly they were considered to be repaid out of inflow, and no regular provision was made for their repayment. Since 1930, however, the actual accruing liability for the postal cash certificates has come to be regularly provided for.

It must be said that our debt redemption arrangements are still far from scientific. In other countries there are commissioners for public debt who constantly keep their hand on the pulse of the money market, so that they may be able to choose the best time for fresh issues or for conversion plan. They dovetail properly all the loans and plan out harmoniously the redemption of the various issues. We should also have a similar organization.

23. **Effect of World War II on Public Debt**. Such a gigantic war as the one that has just ended could not leave the finances of a country unaffected. The Government of India had to resort to loan operations in order to prosecute the war successfully. Among the several loan issues may be mentioned 3 per cent Six-year Defence Bonds issued in June 1940, Ten-Year Defence Savings Certificates and Interest-free Bonds, and second 3 per cent. Defence Loan of longer duration issued in February, 1941, to replace 3 per cent Six-Year Defence Bonds. Besides these loan issues, Defence Savings Provident Fund was instituted for all Government servants and also Postal Defence Saving Bank Account giving 1 per cent more interest than the ordinary Savings Bank Account. In 1945-46, the borrowing programme was further extended by the issue of 3 per cent loan 1953-55, 3 percent First Victory Loan 1957, re-issue of 2¾ per cent 1948-52, and 3 per cent Funding Loan 1966-68. The investment in Government Loans resulted in the withdrawal of redundant purchasing power from the public. This reduced the pressure on the prices of consumable goods and the loans enabled the Government to build up reserves for development purposes. The progressive total of public loans issued since the beginning of the war up to the end of January, 1946, amounted to Rs. 1,173 crores.

Redemption and Repatriation of India's Sterling Debt. The biggest surprise that has come to us from the war (1939-45) is that our long standing foreign debt has been after all practically wiped out. In 1941-42 instead of paying anything we expected a refund of £ 26 million. Funded debt of India in Great Britain which stood before the war at £ 300,000,000 has been extinguished. The total amount of repatriated sterling debt up to February 21, 1944, was £ 350 million. The railway annuities and debenture stock will be liquidated in 1956 if not earlier. That the character of public debt in India has undergone a significant change is clear from the fact that it is now, nearly all of it, in the form of rupee debt. India finds herself in entirely a novel situation. In 1938-39 the public debt was Rs. 395·50 crores and by 1945-46 it came down to barely Rs. 14 crores.

But how has this miracle been accomplished ? Her balance of trade was markedly favourable ; she sold more than she purchased from outside ; she sent large quantities of military supplies to His Majesty's Government ; she incurred expenditure on behalf of the Allies ; she had to recover a portion of war expenditure from British Government. She also received a substantial amount towards the cost of modernization for the equipment of Indian Army. All these factors cumulatively turned the scales in favour of India. India accumulated sterling balances which stood at £ 1330 million on March 31, 1946. Since then they have been falling due to large imports of food grains and consumer's goods. After the settlement of June 1948, the sterling balances came down to £ 800 million.

But this new situation now is fraught with serious problems. It will be necessary to husband these resources and not to fritter them away.

In his budget speech Shri Shanmukham Chetty, the Finance Minister, amply explained how our debt position was intrinsically sound. At the end of 1948 the total outstanding public debt stood at Rs. 1,795 crores and it was expected to rise by a further Rs. 56 crores during 1949 to Rs. 1,851 crores. The total of the interest-bearing obligations was estimated at Rs. 2,182 crores at the end of 1948 and Rs. 2,331 crores at the end of 1949. Against these obligations we expect to have at the end of 1948 roughly Rs. 1,161 crores and at the end of 1949 nearly Rs. 1,237 crores by way of interest-yielding assets representing the investments in the two great commercial departments of Government, namely, the Railways and Posts and Telegraphs, outstanding amounts due from the provincial Governments, Indian States, Burma and others and the probable debt due from Pakistan. Besides, there were cash and other investments on treasury account amounting to Rs. 246 crores at the end of 1948 and Rs. 130 crores at the end of 1949. Thus the total interest-bearing obligations not covered by the interest-yielding assets and cash and other investments were estimated to stand at Rs. 775 crores at the end of 1948 and Rs. 864 crores at the end of 1949.

The burden of debt must be judged primarily by the size of the dead-weight debt. The total public debt has been estimated at Rs. 2,225 crores (1949) out of which only Rs. 900 crores is represented by unproductive debt. This amount is certainly very small when compared with our resources, and national income. The Finance Minister roughly puts the national income at Rs. 4,500 crores. Thus our total interest-bearing obligations which were expected to stand at Rs. 2,231 crores at the end of 1949 amount to less then half of our national income. In the United Kingdom and the U. S A. it is nearly three times and more than 1½ times, respectively.

There is another way of looking at out debt position. We might consider the interest charges in relation to the annual revenue. For 1948-49 our gross payment of interest charges amounted to Rs. 1,682 crores. We get Rs. 2,256 crores from our commercial departments like Posts and Telegraphs and by way of interest receipts from provincial Governments and other sources. The net interest payment is, therefore, Rs. 3,616 crores. If we deduct Rs. 9 crores that we expect by way of interest from Pakistan, the net interest payment comes to about Rs. 27 crores. The anticipated revenue is Rs. 256·28 crores. The net interest payments are thus 10½ p.c. of our revenue This shows that India can carry a much larger debt burden and there is great scope for the raising of productive loans Thus the savings of the community can be mobilised on a much larger scale for financing the various development schemes. In the words of Shri Chetty, 'In spite of all the trials to which our infant State has been subjected to we have the solid foundations on which we can confidently build the superstructure of our economic and social edifice".

CHAPTER XXXIII

PROVINCIAL FINANCE

1. Introduction. We have seen in a previous chapter that at one time the Indian provinces had no independent financial existence. They were at the mercy of the Centre and were fed by annual grants. The process of financial devolution culminated in 1919 in a clear-cut division of revenue sources between the Central and provincial heads. The principal heads of revenue for provincial Governments, now are Land Revenue, Irrigation, Excise, Forests, Stamps, Registration and other Scheduled taxes.

Now a word about each of these heads of revenue.

2. Provincial Head of Revenue. *Land Revenue* :—Land revenue has occupied a very prominent position in the Indian tax system. Next to custom it is the most important source of revenue, bringing in Rs. 34 crores a year.

But the Indian land revenue system is full of anomalies. A non-agriculturist, earning less than Rs. 3,000 a year, is not taxed; but even the poorest peasant, hardly earning enough to support himself and his family for a few months in the year, has to pay land revenue The U. P. Banking Enquiry Committee considered 30 per cent of holdings to be uneconomic and another 52 per cent. just on the margin. Obviously the Government cannot afford to incur a huge loss of revenue by freeing 82 per cent. of the holdings, Exemption of uneconomic holdings will encourage further fractionalization. Besides, it is difficult to fix on any objective test of an economic holding; it will vary from province to province. There are scores of other administrative difficulties. And yet some way must be found to give relief to the Indian peasant who is the poorest and most heavily taxed in the world.

The land revenue demand forms a certain percentage of 'net assets' but there are wide provincial variations in this respect and also in the terms of settlement. It varies to the extent of 28 per cent. between province and province and 300—430 per cent. if viewed in relation to the provincial population.[1] 'Its proportion to rent ranges from 50 to 20 per cent. in the U.P., 42 to 7 per cent. in the C.P. and 100 to 10 per cent. in Madras.'[2]

The greatest of all anomalies arises from the permanent settlement of Bengal by which the State has surrendered in perpetuity its share incremental values. The rigidity of the land revenue arises from the fact that it is fixed for a long period. This defect has been overcome in the Punjab by the introduction of a sliding scale system.

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[1] C. N Vakil—Fiscal Developments in British India, 1926, p. 371.

[2] Rangaswamy Aiyangar—Some Modern Trends in Public Finance, 19 6.

There is no doubt about this tax being regressive. As the agricultural interests dominate the provincial legislature, it is very likely that given a favourable opportunity, land revenue will be reduced.

The shortcomings of land revenue have been thus summed up : "It is uncertain in incidence, incorrect in assessment and collection, uneconomic in its administration, unequal in its distribution and inelastic, and far from benefiting the cultivator who pays the tax. It is prejudicial to the growth of capital and improvements in agriculture[1]."

Irrigation. Water rate is in the nature of a tax. But there is no clear principle on which it is charged. The practice varies from province to province. Sometimes it is mixed up with land revenue ; in other cases different rates are charged for irrigated and unirragated land. Water rate cannot be charged on the cost of service principle for then the rate will be different for each irrigation work, nor can it be charged on the benefit principle. There has to be a compromise.

There are grounds for a generous treatment of the cultivator. It is wrong to think that a particular class benefits from irrigation works. They increase national income and taxable capacity ; they save life in case of famine and obviate the necessity of remission and suspension of land revenue. Therefore they have to be considered from a broader social point of view.

At present, the water charges are seldom revised ; yet frequent revision is essential to suit the charge to the profitableness or otherwise of agriculture. It will be better if irrigation finance is separated from the general provincial finance.

Excise. The excise revenue is derived from the duty on manufacture of alcoholic liquor, drugs, opium, etc., and from licence fees from the vendors. The excise income in 1929-30 rose to an alarmingly high figure of Rs. 20,41,23,285. It was alarming because it indicated increase in the habit of drunkenness. In recent years the excise revenue has gone on decreasing or has remained stationary. In course of time, this source is sure to get dried up. It is the wish of every social reformer in India to see the evil of drink stamped out from the country.

The Government has been trying to check consumption by moderately high duties which may not encourage illicit distillation. The Congress Ministries boldly launched on the policy of selective and gradual prohibition. Total prohibition at one stroke seems to be beyond the pale of practical finance. Apart from a loss of revenue, it will mean increase in administrative expenditure in checking smuggling or illicit distillation. But through the reduction of the number of shops, limitation in number of opening hours, restricting the supply, higher tax on stronger liquor and curtailment of other attractions in the shops and gradual extension of 'dry' areas, the goal of prohibition can be realized.

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[1] Narasimha Aiyangar—Indian Journal of Economics. VII (1927). p. 147.

There is a deep-rooted sentiment in India against drink; every Indian woman is opposed to it. But exclusive reliance on 'reform-from-within' principle will mean postponement of complete prohibition till Dooms Day. Restrictive legislation is absolutely essential to hasten the approach to this very desirable goal. Most of the provincial Governments have now adopted the policy of prohibition. There is now Congress rule in all provinces. We may, therefore, expect that the policy of prohibition will be implemented with due speed and all earnestness.

Forests. Forests require a very liberal capital outlay for a long time before they can be made to yield a handsome return. Money has to be almost lavishly spent on afforestation, protection and development of the means of transportation. Private enterprise cannot do it. But the State can well afford to do it and can patiently wait for the return, for it is not expected to discount future at a heavy rate. Frankly speaking, our expenditure on forests has been much less than would seem necessary. The bulk of the revenue is derived from the sale of timber, fuel and other 'minor' produce and from fees on grazing. The gross revenue in 1939 40 was about Rs. 3 crores.

Stamps. Stamps are judicial and commercial, the former affixed on plaints and petitions, and the latter on commercial transactions. There are some people who think judicial stamps are a tax on justice. But it should be borne in mind that in such cases, the administration has always to perform certain services to the litigant public. The decrease in the number of suits in consequence of the indebtedness legislation has adversely affected the revenue from stamps which in 1939-40 was about Rs. 10 crores in British India.

Registration. The registration fee is charged when documents relating to immovable property are registered. An increase in this revenue may mean economic distress compelling the people to alienate their property. It is a payment for ensuring a satisfactory record of the transaction and to prevent, or easily settle, any further dispute on the point. The total revenue is, however, very small, being about Rs. 1 crore in British India.

Scheduled Taxes. These are the taxes which the provincial Governments were empowered to impose under the Reforms Act of 1919, *e.g.*, taxes on betting, amusements, advertisements, succession duties and taxes on land put to non-agricultural uses.

3. Provincial Expenditure. Besides maintaining the administrative machinery, the provincial Governments have to look to the social needs of the people and administer the nation-building departments like education, medical and health, and agricultural and industrial development. As compared with other advanced countries the scale of expenditure on these services in Indian provinces is ludicrously small. No wonder that the standard maintained for these services in India is extremely poor. That is why only a microscopic minority of Indian people is literate and lakhs of men, women and children are swept away by ever-recurring epidemics.

4. Critical Review of Provincial Finance. We may again repeat that the provincial Governments derive their revenues from sources which are not likely to expand but are likely to diminish, whereas the services they have to render require for their proper expansion and efficient administration increasingly large amounts of money. Between 1913 and 1929 land revenue increased by 7-1/2 per cent. only ; income from excise remained almost stationary and stamp revenue fell substantially after 1925. Between 1923-24 and 1928-29, while the total provincial expenditure increased by 22 per cent. the total provincial revenue increased by 4 per cent.[1] The burden of the land revenue is already oppressive and must be reduced, excise revenue must vanish some day, and the revenue from registration is negligible. Forests require a large outlay for development. On the other hand, huge expense is necessary if in matters of education and public health, we have to be brought in line with other countries. Expenditure on these two departments is very small and medical facilities are utterly inadequate.

The provincial sources of revenue are not only inadequate, considering provincial requirements, but they are also inelastic and inflexible.

Besides, the burden of provincial taxation is unequally distributed among the various classes of the community, the poor bearing the heaviest burden. The bulk of the land revenue and irrigation charges is contributed in the aggregate by the poor, and so also is the bulk of the revenue from judicial stamps. In 1932 out of a total number of 2,711,306 civil suits, 302,230 were under Rs. 10 in value and of the total 67 per cent. were under Rs. 100[2]. Registration fees, too, where land is concerned, fall on the poor. The better off urban classes do not contribute to the provincial exchequer unless, of course, they indulge in drink and litigation. On the other hand, they are the greatest beneficiaries from the activities of the provincial Governments.

Moreover, the financial policy of the provincial Governments was very conservative. They rely more on retrenchment than on development of revenues. Expenditure on forests is niggardly. No attempt is made to make the rich land-owning classes to bear the proper burden of taxation. Law and order swallow up the bulk of the revenues and the expenditure on social services is meagre. The irrigation policy is motivated by profit so that either the poor peasant has to pay more or unprofitable works of protective nature are neglected.

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[1] Ahmed, L. A.—Public Revenue and Fxpenditure in India, 1938, p.p. 5-6.

[2] Ahmed, L.A.—Public Revenue and Expenditure in India, 1949, p. 24.

At present land revenue dominates the provincial finance. In India land revenue represents about 16 per cent. of the total revenue whereas in Great Britain in 1935-36, it was only £ 0·8 million out of £ 824·8 million of total revenue, in France 2 0 per cent. and in Italy 7 per cent[1]. The relief to the poor peasant of India is overdue. When taxes like sales tax and Central excises imposed for the benefit of the provinces are developed, it may be possible to decrease too much dependence on land revenue.

5 Suggestions for Reforms in Provincial Finance. The following reforms in provincial finance may be suggested :—

(*i*) As soon as possible, the provinces should be handed over either their full share of income-tax or the percentage of their share may be increased from 50 to 66-2/3. This will meet the ends of justice in case of industrial provinces.

(*ii*) Land revenue should be progressively decreased in case of poor peasants so that after some time uneconomic holdings are altogether exempted.

(*iii*) Progressive taxes on agricultural incomes should be imposed without delay. It will make the broadest shoulders bear their proper burden, and will enable relief to be afforded to the poor peasant. It will also rectify to some extent the regressive character of provincial taxes.

(*iv*) A graduated succession duty or inheritance tax will also have the same effect and should be imposed at once.

(*v*) There should be a better co-ordination between provincial and local finances so that both units of administration are able to maintain standards of efficiency in the services entrusted to them.

(*vi*) The greatest need is to diversify the character of provincia finance and decrease its unparalleled dependence on land taxes This can be done by encouraging village industries and big industri in towns, so that there is a better balance between agriculture an industry. The development of trade and industry will open out ne avenues of taxation.

(*vii*) In order to equalize tax burden, articles and services con sumed by the rich should be made the target of new taxes Taxe on trades and professions can be adjusted to the same end throug a progressive scale of licence fees.

(*viii*) The timid policy of balancing the budgets somehow other should be replaced by a bold policy of liberal expenditure public works and services calculated to develop human and mater resources of the province. It can be done by additional taxati or borrowing. This policy will pay in the long run. We are now a vicious circle. We are economically backward and poor and can not pay more taxes, so that the resources of the provincial Governments are too limited to bring about economic development and consequent prosperity, and we remain poor. This vicious circle must be broken and it can be broken at one end only, *viz.*, the State first spending money and developing the resources of the province. There is not much scope for economy drive. We suffer from grave constitutional limitations and cannot touch some higher posts or their emoluments, and it does not look fair to lower those who are already low. We can only insist on wise expenditure so that the revenues are appropriated for the right purposes.

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[1] Ibid.—p. 33.

6. **Recent Provincial Finance** Provincial Finance has undergone some vital changes in recent times.

Under provincial autonomy the zeal of the new ministers to improve living conditions in their provinces led to the imposition of new taxes. The nation building departments, or the beneficent departments as they are called, *e.g.*, education, medical aid and public health, agriculture and industry are the charge of the provincial Governments. Most of the development schemes relate to these departments, and they call for an ever-increasing need for funds. Within a few years of the introduction of provincial autonomy provincial Governments began looking round for new sources of revenue. Among the new taxes imposed may be mentioned the Sales Tax, Entertainment Tax, Tax on Sales of Motor Spirit ;Tax on Urban Immovable Property, Tax on Tobacco, Tax on Betting. Besides these new taxes, Stamp Duties and Court Fees were enhanced in several provinces. The U.P. Government imposed an Employment Tax. The result of these financial measures was to make the provincial budgets more diversified.

Even a year or two before the end of the second World War, the air in India was thick with post-war reconstruction schemes. Planning committees were set up in the various provinces which fixed targets to be achieved in the near future as regards health and education. Programmes of road building and other public works, mostly irrigation and hydel projects, were prepared. Each province seemed to vie with the other in putting up an attractive programme of post-war reconstruction and development of agriculture and industry. Liberal grants were assured from the Centre. But provincial responsibility in the matter of financing these schemes was none the less recognised. These schemes were bound to affect provincial finance in recent times.

On August 15, 1947, India was partitioned. The Punjab, Bengal and Assam were split up. The partition was not effected in a peaceful manner. Violent communal disturbances resulting in mass migration of the population, almost complete cessation of trade and industry in the border provinces, the breakdown of the transport system, the deliberate destruction of crops and other property, the paralysis of the machinery of law and order—all these factors must inevitably affect the provincial finance. Huge sums of money had to be spent on the relief and rehabilitation of the uprooted millions. Provincial expenditure went up by Rs. 29 crores between 1938-39 and 1942-43, and the increase since then was more rapid. The factors responsible for increase in expenditure are: Grow-more food campaign policy, measures of internal security, war and dearness allowances, etc.

During the war, the provincial budgets, as a rule, showed handsome surpluses which touched the peak level of about Rs. 11 crores in 1945-46. It only showed a lack of planning in provincial finance. But it proved a blessing in disguise, for the amount of reserve fund, which at one time totalled Rs. 70 crores, become handy to meet deficits in post-war years and to finance post-war development schemes.

The tax revenue of the provinces, however, continues to be low. Although the provincial revenues registered a threefold increase from 1938-39 to 1948-49, yet the proportion of tax revenue during this period actually declined from 74·5% to 65·2%. This only reflects increasing dependence of the provinces on Central grants and subsidies. It is necessary to develop provincial revenues so that adequate funds are available to raise the standard of social services and for schemes of reconstruction and development.

Looking at the principal sources of revenue, we notice a high degree of inelasticity. In 10 years 1938-39 to 1948-49, land revenue increased only by Rs. 10 lakhs. Revenue from stamps, excise, forests, etc. showed some buoyancy during the war, but this buoyancy proved transitory because after 1945-46 revenue from excise and stamps showed a decline.

During the last decade, provincial Governments have introduced several new taxes. Agricultural income-tax has been introduced in West Bengal, Bihar, the U. P., Madras, Orissa and Assam. Sales tax is now being levied in all provinces. The other new taxes are taxes on betting and gambling, entertainment tax, tax on professions and trades and on urban immovable property. Considering the levels of industrial and economic development, it appears that the limit of taxable capacity has been reached in most of the provinces.

The revenue from taxes on betting excise, stamps and registration may be expected to decline as the provinces are pledged to the policy of prohibition, decrease in litigation through the creation of village panchayats, and the prohibiting of betting and gambling. On the other hand, expenditure on security services, dearness and food allowances and on debt services cannot be reduced. The expenditure on nation-building departments must go up. The provincial expenditure increased by Rs. 177·75 crores between 1938-39 and 1948-49. Of this only 26·7% is accounted for by social services and 23·2% by security services. Much of this increase is due to unproductive post-war schemes or those development schemes which will take long to yield results.

This has landed the provinces into financial difficulties, and they are asking for more and more from the Centre. They are clamouring for a greater share of income-tax and for more grants and subsidies. The proper remedy is to go slow in the matter of reforms like prohibition. Introduction of compulsory primary education, abolition of zemindari and prohibition can well wait for two or three years so that the provinces emerge out of their present financial difficulties and are able to steady themselves. Provincial finance must be put on a rational basis, a better planning of provincial revenues and expenditure is needed. Saving must be effected in expenditure on police administration and unproductive schemes so that funds become available for social services and productive projects.

The advent of freedom and consciousness of political power have led the provincial Governments to launch grandiose schemes regardless of economic and financial situation in the country. The resultant spurt in provincial expenditure only accentuated inflation and produced chaos in the field of finance. Co-ordination is impossible if Governments pursue certain objectives irrespective of costs. It is well to remember that social objectives have no absolute paramountcy. For instance the benefits of prohibition may be far outweighed by the evils arising out of heedless taxation which it may entail. The new levies may retard the growth of trade and industry. "In the case of extension of compulsory primary education also, it is well to remember that nothing is gained for the individual or for society by scratching the surface of a wider expanse of educational land, without regard to the quantity of the soil or the kind of crop that can be raised, when more intensive and scientific cultivation of the areas already reclaimed can give a better and richer yield." [1]

As an anti-inflationary measure, the Central Government wanted to restrain the provinces in their mad career of reform which meant less revenue and more expenditure. Accordingly a conference of provincial Finance Ministers was called. The advice of the Central Government does not seem to have been effective. Although every province has tried to avoid deficit budgeting, yet they seem still to go forward on the path of sacrifice of existing revenue, levy of fresh taxes and large scale new expenditure. Nearly all provinces have manifested heedless zeal for extension of prohibition. They have indulged in relentless exploitation of revenue resources. No regard seems to have been paid to the effects of the new taxes on trade and industry and on the life of the average individual, nor has any care been exercised to see whether they fit into the framework of public finance concerning the whole country. As an instance of overlapping may be mentioned the coincidence of local sales tax in Bombay and the Central excise which have adversely affected cloth trade.

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1. Indian Finance, March 12, 1949, p. 455.

For 1949-50, the U. P., Madras and Bombay have all alike levied new taxes to the extent of Rs. 4 crores a year. During the last two years there has been a worsening of the chaotic system of Central grants, divisible pools of revenue and indiscriminate provincial taxation. Unless a rational system of public finance emerges out of this chaos, there can be no sure prospect of a steady progress in the immense task of nation building. What is needed at the present moment is to reduce inflationary pressure and to effect every possible economy in public administration so that the financial system does not become unduly rigid.

7. **Salient Features of the East Punjab Budget, 1949-50.** East Punjab is our infant province born on August 15, 1947. Few births would be less painful. A week before the birth, the parent province was engulfed in the rising tide of violent communal commotion. The birth of the new province was solemnised by burning homes, the cracking of the bombs, throwing of stones, instead of flowers, from the house-tops, the firing of the shot guns and the clanking of the kirpans. The bomb-thrower, the stabber, the fire-raiser were all abroad and had a free field for their nefarious activities. The peaceful citizen was driven to the wall and had to remain confined within the four walls of his castle, the home. One big wave of insanity seemed to have overwhelmed all. The Demon of Communalism roused by the hymn of hate preached for more than a decade was now stalking the land and roving in search of its victims. The landscape, the roadsides, the banks of canals and the railway tracks and platforms were strewn with dead bodies. Untold and unimaginable atrocities were committed on innocent men, women and children in the name of religion and a political gospel. The worst sufferers were the defenceless, the aged, and the frail women and children Dark clouds of unprecedented tragedy overhang the erstwhile land of the five rivers. It was under such stars that East Punjab was born.

As a necessary consequence of the above conditions prevailing in the province, law and order were paralysed, its economy was disrupted, the transport system broke down, trade and industry had come to a standstill. Millions of human beings ranged rudderless, without home and hope, without food and clothing and looked for haven of safety The baby Government of East Punjab found itself suddenly saddled with the responsibility of looking after these unfortunate uprooted millions. It had to pull out the remnants of the nationals who had escaped the knifeman but were still stranded in West Punjab. The first concern was to save life. Relief had to be offered to those who were still living. They had further to be rehabilitated. Law and order had to be restored. All this meant expense The East Punjab budget naturally bears the marks of this rape and ravage.

Further, East Punjab could not remain unaffected by the economic and financial crisis which has overtaken the country.

The final revised estimates for 1947-48 showed a deficit of Rs. 6,98 lakhs and those for 1948-49 a larger deficit of Rs. 10,88 lakhs.

Looking at expenditure, the increase under Police is unavoid able as it was necessary to equip the police with arms and ammunition, vehicles, horses, etc. Wireless organisation had also to be set up. Lest the police staff should sponge on the local population, they were supplied free rations. Expenditure on Education increased because of influx of refugee students from West Punjab. They had to be granted loans and also given free grants to enable them to continue their studies Large purchases of improved seeds accounted for the increase under Agriculture.

The Budget estimates for 1949-50 show a deficit of Rs. 8,55 lakhs. But it does not represent real deficit. The apparent deficit almost equals the expenditure on relief and rehabilitation of refugees which is to be paid by the Central Government. If the promised post-war grant of Rs. 1,50 lakhs is taken into account, the Budget for 1949-50 becomes almost a balanced budget.

Taking a long-range view, Rs. 1,20 lakhs as receipts of the Relief and Rehabilitation Department must ultimately disappear; we must also do without subsidy from the Centre which means that we must raise an additional revenue of Rs. 3 crores. Our expenditure is also likely to go up as a result of the normal increase in establishment charges on account of the incremental scales. We must also assume our full liability in respect of debt, pensionary charges, etc. We must also finance our development schemes. All this would mean a gap of about Rs. 5 crores in our annual budget which will have to be bridged. To this end the Resources and Retrenchment Committee, appointed recently, has made a number of recommendations. Our hopes are pitched mainly on the Bhakra and Nangal Projects.

In 1949-50 revenue under Taxes and Duties is likely to go up mainly because the rate of the Sales Tax has been enhanced from annas 4 p.c. to Rs. 3-2-0 p.c.

The normal expenditure of the province is Rs. 14 crores of which civil administration accounts for over a third. The Police accounts for Rs. 3 crores. The present strength of the police exceeds the pre-partition strength by a third and the pre-war strength by more than a half. About Rs. 2 crores each have been provided for Education and Industrial Development Still the standard of social services maintained by the province cannot at all be considered satisfactory. We lack the basic amenities of civic life. There is thorough dissatisfaction about the manner in which the problem of the refugees is being tackled. The benefits received by the refugees are not at all commensurate with the drain on public purse. The vagueness about the expenditure on Bhakra and Nangal Projects is also disquieting. The financial position of the province has been described by the Finance Minister as not unsound.

The Budget 1949-50 at a glance :—

Revenue Receipts	*Revised Estimate* 1948-49	(In thousands of rupees) *Budget Estimate* 1949-50.
Taxes on income other than Corporation Tax	2,27,95	2,04,25
Net Land Revenue	1,61,82	1,61,79
Provincial Excise	2,22,47	2,09,29
Stamps	39,44	39,39
Forests	54,14	55,80
Registration	3,46	3,52
Receipts under Motor Vehicles Act	10,97	10,79
Other Taxes and Duties ...	63,44	1,14,70
Net Irrigation Receipts	81,86	1,02,86
Interest	11,63	13,62
Civil Administration	29,77	28,27
Beneficent Departments ...	75,68	55,73
Civil works	8,30	8,91
Net Electricity Receipts	36,76	26,78
Miscellaneous	1,43,32	2,26,29
Grant-in-aid from Central Government	1,75,00	1,75,00
Miscellaneous adjustments between Centre and Provinces	20	20
Total Revenue Receipts ...	13,46,21	14,37,19
Extraordinary Receipts ...	1,00,00	1,55,50
Total Revenue	14,46,21	15,92,69

	Expenditure *Revised Estimate* 1948-49	(thousands of rupees) *Budget Estimate* 1949-50
Land Revenue ...	47,48	50,29
Provincial Excise ...	11,86	9,89
Stamps ...	90	91
Forests ...	47,29	48,45
Registration ...	17	24
Charge on account of Motor Vehicles Act ...	3,24	3,44
Other Taxes and Duties ...	7,85	7,15
Irrigation ...	71,32	99,94
Debt Services ...	57,08	12,51
Civil Administration ...	5,13,08	5,14,85
Beneficent Deptts ...	3,65,74	4,01,02

	Revised Estimate 1948-49	*Budget Estimate* 1949-50
Civil Works etc.	1,53,80	1,84,88
Miscellaneous	12,68,26	9,83,17
Total Revenue Expenditure	24,33,91	22,91,72
Extraordinary Expenditure	1,03,06	...
Total Capital Accounts	67,61	...
Total Expenditure	26,04,58	22,91,72

Total Revenue	14,37,19
Total Expenditure	22,91,72
Deficit	8,54,53

The revenue of the province has registered an all-round decline, while the expenditure, especially in Police and Civil Administration, has increased Relief and Rehabilitation of the refugees eats up a big slice of our revenues. Excluding expenditure on refugees, the cost of Civil Administration accounts for over 40% of our total expenditure. In the undivided Punjab it accounted for only 33%. Formerly expenditure on police was 14% of the total revenue expenditure and now in East Punjab it is nearly 25%. No doubt East Punjab is a border province but the border defence is a Central responsibility and there is not much reason for such a big increase in police expenditure. When normal times return this expenditure must be cut down considerably. A strict scrutiny is essential into all items of expenditure. An economy drive should be launched without delay. Every effort should be made to put the province on its own legs.

What is needed most is the development of the resources of the province. It is only when agricultural and industrial development is stimulated that is a permanent solution of the financial difficulties can be found. At present we are not fully exploiting even our existing resources. Industrial establishments left by Muslims have been lying idle and the lands lie uncultivated. When the province is industrialised to the fullest extent possible and when projects like Bhakra Dam and Nangal bear fruit, the revenues will be automatically developed. East Punjab is full of potentialities. Determination to work them is needed to make the province self-supporting.

But with all the efforts that may be made to develop its resources, the Central Government will have to come to its aid for some time. Central aid will be needed in building the new capital. The province has paid a heavy price for the country's liberty and it is only fair that it should receive a due measure of help from the

Central Government. The N.-W.F.P. used to get a subvention of Rs. 1 crore per annum from the Centre. A similar subvention for East Punjab will also be necessary.

8. The Effect of World War II on Provincial Finance Unlike the Central Finance, the Provincial Finance is not so much subject to external influences like war. In the case of the Central Government, Customs, Railway Earnings, Income Tax, etc., are bound to be affected by war. But the provincial heads of revenue are not so affected. It is the Central Government which has to finance the war. Therefore the structure of Provincial Finance has not been much moulded by war conditions. Fresh taxation measures were passed, no doubt, during the war but they were dictated not so much by the war exigencies as by their own provincial needs for the development of social functions. It does not mean that people have not suffered from the effects of the war, like food shortage, higher prices, scarcity or non availability of necessary articles, curtailment of transport facilities and certain levies or contributions for war purposes But the point is that no marked changes in the tax systems of provinces have been made. Provinces had, however, to incur expenditure on A.R.P., more expenditure on Police, on administrative measures of price control and for purchase of wheat and other articles.

During the war revenues of almost all the provinces have increased. From under Rs. 85 crores in 1938-39, the total revenues of all provinces put together have gone up to Rs 190 crores in 1915-46; the increase in Bombay, the U.P., Madras and Bengal was over 200 p.c. These revenues have largely increased on account of the share of income-tax accruing to the provinces. The yield of land revenue has also increased on account of higher agricultural prices Increased demand for timber increased the yield from forests. Entertainment tax and that on Sales and Stamps have also registered an increase. It is simply the higher yield from the various sources which has increased the revenue and this is in no way due to the increase in taxation. The improvement in Sind is due to the sale o barrage lands and profits from trading The provinces have followe a policy of maximum revenue and minimum expenditure.

Every province has been building up funds for post-war re construction. The Punjab has also built up a Peasants' Welfa Fund and a Special Development Fund.

We find, therefore, that World War II has considerabl strengthened the financial position of the provinces Now that th war is over the expenditure will go up, whereas the revenue wi drop.

LOCAL FINANCE

9. Introductory. The problems of local finance are analogo to those of Central and provincial finance. In each case, th authorities are anxious to raise the level of efficiency of the fun tions discharged by them and to develop their revenue for th purpose. Local finance, too, is expected to conform to the well-known canons of taxation, *viz.*. equality, economy, certainty, convenience, productivity and elasticity.

But there are slight differences. There is a difference in the basis of assessment, immovable property being the main basis of the local finance. In the national finance uniformity is essential and more important; whereas in the local finance there is greater variety, because the tax must suit the local conditions. Moreover, the national finance pays more homage to the principle of equity, whereas the local finance lays more emphasis on the benefit theory. Lastly, the local finance is of a much smaller magnitude.

Let us see whether local finance in India is equitable as well as adequate to the needs. Important units of our local self-government are the Municipalities and the District Boards.

10. Municipal Finance. The municipalities have to perform a number of functions both obligatory and optional. They must provide for sanitation and public health, paving and lighting of streets, maintenance of roads, supply of water, and educational institutions for primary and secondary education. They may also open public libraries, maintain museums, public parks, etc. For the performance of all these functions money is needed.

According to the Taxation Enquiry Committee, the municipal sources of revenue can be arranged under four heads—

(i) *Taxes on trade* like tolls, terminal taxes and octroi duty;

(ii) *taxes on property, e.g.*, house taxes on building sites,

(iii) *taxes on persons, e.g.*, taxes on pilgrims, domestic servants, dogs and other animals and taxes on circumstances, professions, trade and callings.

(iv) *Fees and Licences*—Fees are charged for certain specific services rendered, such as school fees, scavenging fees, water supply, provision of markets and slaughter houses, etc. The object of licences is also to regulate a certain activity, such as vehicles, and those for dangerous and offensive trades. Corporations and other bigger municipalities derive large incomes from public utility services such as supply of electricity or gas, bus or tram service or any other similar commercial undertakings. There were in 1939-40, 756 municipalities and to their total income of Rs. 44,31,42,168, rates and taxes contributed 13,71,43,37,4, and other sources Rs. 30,59,98,794. Incidence per head was Rs. 8-7-6.

Of these, taxes under category (*i*), *viz.*, octroi, tolls and terminal taxes, are very objectionable. They hamper trade, are a source of great inconvenience, especially their system of refunds, and, above all, they are regressive. There is also a lot of evasion on account of laxity of supervision. In short, the octroi duty offends against all canons of taxation. The Taxation Enquiry Committee suggested for its replacement by some sort of sales tax. In all other countries octroi duty has practically disappeared from local finance, and tax on property has come to occupy a more important place. It is really regrettable that octroi duty with all its objectionable features still dominates the municipal finance in India.

11. Financing of District (Rural) Boards. India is a land of villages and nine-tenths of her people live in rural areas. The District Boards which are supposed to look after the interests of these people must naturally be the most important unit of local self-government. But being not very vocal, they do not loom so large in public eye as the municipalities.

The District Boards are charged with the upkeep of roads, bridges, ferries, etc., maintenance of schools, dispensaries and other public health arrangements. The most important source of their revenue consists of provincial rates or surcharge on land revenue collected along with land revenue by the provincial Governments. The District Boards have been given the discretion to levy these rates within maximum and minimum limits (6¼ per cent. to 12½ per cent. of land revenue). They get some revenue from the civil works and other miscellaneous sources. The District Boards in East Punjab have imposed *haisiyat* tax and profession tax.

The bulk of the District Board revenue is derived from the provincial rates levied at a flat rate on the land revenue. Being not graduated and adjusted to the ability of the tax-payer, the provincial rates violate the canon of equity. It is open to the same objections as the land revenue. We have to take shelter under the maximum that 'an old tax is no tax'. It shows the same lack of elasticity as land revenue. The introduction of the sliding scale system of Land Revenue in East Panjab has made it a fluctuating source of income.

And then, the total revenue of all the District Boards in British India is only Rs. 17 crores. With this amount the District Boards are expected to provide education, hospitals, preventive measures against epidemics and then to build roads connecting all the 5,00,000 villages. There is no wonder that there are thousands of villages without a school, without a dispensary and without any road. The District Boards suffer from the paucity of funds. It will be necessary, therefore, to increase substantially provincial grants and, as the Taxation Enquiry Committee suggested, to standardize the land revenue at a low level leaving a wide margin for the District Boards to tap through a local cess. In recent years there has been a tendency either to increase the cess or, as in Madras, to add to the number of cesses. The local rate should also be made progressive.

12. Meagre Local Resources. Large powers have devolved upon the local bodies as the outcome of recent constitutional changes in

India. The range of functions which the local bodies are called upon to perform is indeed very wide and varied. The services like education, medical aid, sanitation, and improvement of means of communication—which we expect the Municipalities and District Boards to perform—are of great national importance. Considering all this and the area and the number of people involved, the resources at the disposal of the local bodies in India must be unhesitatingly pronounced as extremely meagre. The total revenues of all the rural boards of British India in 1927-28 were less than £4 million, but in England and Wales, having not more than one-thirtieth of population of British India the amount raised by rates was £27 million. Local rates of all kinds, rural and urban, produced in British India in 1927-28 about £12½ million which is only a little more than the income from rates of the London County Council.[1] In 1931-32, the total expenditure of the local bodies formed only 11 per cent. of the total Central, Provincial and Local expenditure. The expenditure per head came only to Rs. 1-1-0. What miraculous achievements can we expect from such paltry sum spent per head especially when it is to be distributed among the numerous items of local expenditure? England and Wales spent in 1929-30, 55 per cent. of the total expenditure on the local bodies which came to £10, 17s. per head In the U.S.A. local expenditure was 55 per cent. and in Japan 50 per cent. of the total public expenditure.[2] Expenditure on various social services by the municipalities, in the Punjab, amounted to Rs. 6-8-0 per head.[3] With such a small expenditure, our local bodies cannot attain or maintain anything like modern standards of administration. This explains why cholera, bubonic plague and small-pox cases in India exceed those in the rest of the world put together, and that there is so much leakage and wastage in our education. Of those who join a school not many reach the middle standard and those who leave the school, soon lapse into illiteracy.

Among the causes which are responsible for this stringency in the local finance may be mentioned (*i*) the general poverty of the people and low taxable capacity; (*ii*) unwillingness of those who are rich to tax themselves; (*iii*) lack of courage on the part of city fathers. They are afraid lest they should become unpopular and not be elected next time. This results in under-assessment or non-assessment of certain sources. Political pressure has prevented them from making a full use of their powers of taxation.

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[1] Indian Statutory Commission Report, 1930, Vol. 1, p 336.

[2] Economic Problems of Modern India, 1941, edited by Radha Kamal Mukerjee, pp. 430-31.

[3] Malhotra, D. K.—Finances of Local Boards in the Punjab, Paper read at the 25th Indian Economic Conference.

(*iv*) Lax supervision and inefficient administration resulting in evasion and accumulation of arrears. This fact has been noticed in the reports of the working of local bodies in almost all the provinces.

(*v*) Extensive jurisdiction and sphere of work of the local bodies.

(*vi*) But the most fundamental cause is the wrong allocation of resources between the Central, the provincial and the local finance. In other countries land taxes are exclusively left to the local bodies but in India, the provincial Governments have the land tax as their mainstay, because they have been deprived by the Central Government of their legitimate sources like the income-tax.

(*vii*) The recent taxes imposed by the provincial Governments, *e.g.*, Sales Tax and Urban Immovable Property and Entertainment Tax have encroached upon the potential sources of local finance.

(*viii*) The local bodies unwisely launched schemes of education and medical relief beyond their means and this has landed them into financial difficulties so that standards of their services are poor, and their employees are faced with newer and larger cuts in pay.

(*ix*) In the case of District Boards, the disappearance of *Panchayats* consequent upon administrative centralization made them, on the one hand, unable to tax the people who can pay, and increased their responsibilities on the other. The *Panchayats* with their local knowledge are in a better position to tap the taxable capacity of the people.

These are some of the factors which account for the inadequacy of the resources of our local bodies and which prevent them from playing their due part in our national economy.

13. How to Improve the Resources of the Local Bodies. We have seen how inadequacy of the resources of the local bodies hampers them from a proper and efficient discharge of their functions. We have also tried to account for their inadequacy. The main problem of the local bodies is to improve and develop their resources.

We must say at the outset that on account of the chronic poverty of the people, there are serious limitations in discovering new sources or levying fresh taxes. Something can be achieved by stiffening up the administrative machinery so as to ensure efficiency and integrity. Till the people and their representatives in the local bodies come to cultivate a sense of full civic responsibility, a strict control must be exercised by the provincial Governments to ensure that there is no under-assessment, omission of assessments, accumulation of arrears or any negligence in extracting the utmost from the existin gresources.

The expenditure side, too, must be subjected to strict supervision so that extravagance, misappropriation or any improper use of the public money is rendered difficult. Efficiency and integrity in collection, and prudence and economy in expenditure are the necessary complements of any system of public finance.

The Taxation Enquiry Committee made the following suggestions for the improvement of local finances :—

(*i*) Land revenue should be standardized at a low rate to leave a margin for local taxation.

(*ii*) The local bodies should be given a share out of provincial Government's collection in ground rents and from an increase in the rates of non-agricultural lands.

(*iii*) A tax on advertisements should be levied by the municipalities.

(*iv*) Provincial Governments should allow a share out of entertainment and betting taxes to the local bodies.

(*v*) Taxes on circumstances, property and professions should be further amplified.

(*vi*) The Central Government should reduce import duty on cars and let the provincial Governments levy a surcharge for the benefit of the local bodies.

(*vii*) The local bodies should levy a fee for the registration of marriages.

(*viii*) The provincial Governments should subsidize certain services of national importance which are now performed by local bodies not merely to supplement their resources, but also ensure efficiency.

To these suggestions we may add :

(*ix*) Provincial Governments should surrender a large part, or whole, of the proceeds of motor vehicle taxation and allow a share in new taxes like the Sales Tax, Immovable Property Tax and Entertainment Tax and a part of tax on agricultural incomes which should be imposed forthwith.

(*x*) The local bodies, especially the municipalities, should tap the hitherto utterly neglected sources of productive undertakings of a commercial nature, *e g.*, monopoly of the sale of tobacco and of petrol, cinemas, public utility services like electricity, local transport services, sewage farms and sale of manure. All progressive municipalities in other countries have made a welcome increase in their resources by extending the sphere of municipal trading and enterprise. This is a very fruitful source of revenue, and it is a pity that it has been neglected so far.

(*xi*) Another source which has been little tapped so far is that of special assessment. If a property benefits from an improvement made by a municipality, *e.g.*, a tarred road or an underground sewer, it is only fair that the owners should pay in proportion to the benefit conferred on their property. Special assessments are very widely used in the U. S. A., the United Kingdom and on the Continent, and there seems to be no reason why it should be neglected here. Perhaps the vested interests stand in the way. The control of an epidemic may be of general importance: but a dispensary, a reading-room, a park or a playground benefit particular locality more and the beneficiaries should not hesitate to pay

(*xii*) A very large portion of expenditure on education, medical relief, sanitation and public health, and on the maintenance of big roads providing inter-district traffic should be borne by the Provincial Exchequer, because these things are of more than merely local importance.

(*xiii*) When all this is done, it will still be necessary for the provincial Governments to give liberal grants or subventions.

(*xiv*) Borrowing should be resorted to more freely than is done hitherto, especially for financing municipal trading and enterprises and for making improvements which will benefit future generations.

The general impression is that the local bodies are themselves not honestly trying to help themselves, and they generally rely on provincial favours. They are not raising all the revenues that they can and do not get money s worth from the moneys they raise and spend. This must cease if local administration is to improve.

14. Critical Review of the Indian Financial System. No system of finance in the world can claim perfection, but the Indian system has more than its ordinary share of shortcomings We shall consider its drawbacks from two points of view, *viz*, (1) defects in the system of taxation ; and (2) defects in public expenditure.

Criticism of the Indian Tax System. The Indian tax system is haphazard, and has not been scientifically planned to bring about a progressive development of revenues. It has been moulded by the exigencies of time, the main concern being to balance the budgets. Little attention seems to have been paid to the incidence of taxation and its effects on production and distribution in the country. Budgeting, as Sir Walter Layton would put it, has been 'tight fit' without any provision for unexpected and unforeseen expenditure which is, therefore, generally met by borrowing.

There is also an element of uncertainty in the Indian budgets, the one big factor upsetting the calculations being the monsoons. Besides, our resources are inadequate and inelastic.

Further, legislative control over finance is strictly limited, about 80 per cent. of the revenues being non-votable. This undermines willingness to pay taxes, and hence the taxable capacity. It also weakens the sense of responsibility in our legislators, besides making the reforms look farcical.

Another characteristic of our tax system is its traditional conservatism. Taxes, like the land revenue, and excise revenue, continue in spite of almost universal criticism.

We must also notice that, unlike other advanced countries, direct taxes in India play a secondary role, indirect taxes being the mainstay. Undeveloped state of direct taxation is one of the gravest defects of our tax system.

Another serious defect is the regressive character of our tax system. It offends against the canons of equity or equality of sacrifice. It discriminates against the poor and in favour of the rich. Income-tax is the only tax paid by the rich, and even here the progession at higher levels is not so steep as it ought to be. Land Revenue, Customs, Excise and even Railway Fares are in the aggregate contributed by the poor. Absence of Succession Duty, tax on agricultural incomes, and on windfalls accentuates this regressive character. "A poor cultivator," remark the Indian Statutory Commission, "who not only pays to the State a substantial portion of income from land, but also bears the burden of the duties on sugar, kerosene and salt and other articles of general consumption seems to receive a very different treatment from the big zamindar whose agricultural income is wholly exempt from income tax.[1] Professional middle classes and business community escape paying their due share with the big landlord. In the words of Prof. K.T. Shah, " Richer classes escape relatively with much lower burden even though their ability to bear or evade such burdens is much greater, while the poorer classes who cannot escape from much burdens have to bear the lion's share of the burden with less than lamb's capacity to shoulder them."[2] Introduction of protective tariff accentuated the burden on the general public.

Allocation between Central, Provincial and Local finance is defective, so that first starves the second, and second in its turn starves the third.

Criticism of Public Expenditure. Public expenditure in India has been steadily growing. But there is nothing to be alarmed at this, provided the expenditure is wise and is calculated to develop the human and material resources of the country, and it is here that our public expenditure offends most.

Public attention in India has always been focussed on the defence expenditure of the country, the objection being taken to the huge dimensions to which it has grown, to the foreign element in the army and the purpose for which it is kept. Army and Defence services are said to absorb about 25 per cent. out of our total revenues. For some time it was the highest in the world. In 1935-36, Indian expenditure on defence services was 24 per cent. of her total expenditure, in the United Kingdom 15 per cent., in France 16 per cent, in Germany 17 per cent. and in Italy 21 per cent.[1] Sir Walter Layton in his report says : " An outstanding feature of this summary (of the financial position) is the high proportion which current expenditure on defence bears to the total expenditure of the Central Government—a higher proportion in fact than in any other country in the world. Security is, of course, essential if production is to develop, but it cannot be claimed for expenditure on defence either that is mere redistribution of income or that it promotes productive efficiency. Again, 'her (India's) expenditure is between two and three times as great as that of the whole of the rest of the Empire outside Great Britain'.[2] India does not even seem to have benefited by the conditions of world security after the war (1914-18), and her defence expenditure continued mounting up even after allowing for the rise in prices.

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[1] Vide Report, Vol. I, 1930, pp. 334-35.

[2] Shah, K.T.—Review of Indian Finance, 1927-34, p. 48.

It is also contended that the Indian army is kept for Imperial purposes. Lord Esher's Committee in 1921 considered Indian army as a unit in Imperial Defence.

Indian public opinion objects to the keeping of such a standing army on a war footing in peace times. If money is to be spared for more important schemes of social and economic development, the defence budget must be drastically cut down. Indianization of the army, introduction of compulsory military training for all Indian youths, cultivating good relations with the neighbours and sharing the advantages of the common Imperial defence system will enable the necessary reduction in our military budget.

Another very objectionable feature of our public expenditure is the costly top-heavy civil administration. Our Civil Service is admittedly the costliest in the world. "The official salary—without reckoning allowances or other advantages—averages Rs. 3,000 per month as against corresponding average of Rs. 1,000 per month in the United Kingdom.[3] A poor country like India can ill-afford to pay such high salaries. Indianization has not been helpful in this direction ; for Indians have also been given the same salaries as the Englishmen. These high levels must be considerably scaled down. The highest salary in India that, in our opinion, corresponds to our *per capita* income may be put at Rs. 1,000 per mensem. The salaries at the other end are too low. A salary of Rs. 50 or Rs. 20 is a mere joke. Mr. Anthony, representative of the Anglo-Indian community in the Central Assembly, described, in the course of the famine debate held in November, 1943, "our administrative machinery is unbalanced, "which, at the top, is over-paid and mentally famished and at the bottom is underpaid and morally famished." The minimum salary should be at least Rs. 50 p.m. The gulf between the high and the low must be bridged as much as possible. We shall have to frame our own scales of salaries.

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[1] Ahmad, Z.A.—Public Revenues and Expenditure in India, 1938, p. 48.
[2] Indian Statutory Commission Report, Vol II, pp. 216-17.
[3] K.T. Shah—Review of Indian Finance, 1927-34, p. 16. (footnote)

The debt services cut off another big slice out of our revenues. When it happened to be an external debt, it was a dead loss. Fortunately, we had paid all our foreign debts now.

The net result of high military expenditure and top-heavy administration is that the bulk of our revenues are consumed merely in running the Governmental machinery and not much is left for beneficent activities, so that economic and social developments are impeded. It is said that in India only 12 per cent. is spent on nation-building departments and 88 per cent. on running the Government.[1] In the words of Sir Walter Layton, " She (India) is incurring expenditure on the primary functions of Government, such as defence and the maintenance of law and order, as high in proportion to her wealth as western nations. Her expenditure on social services, such as education, health, sanitation, etc., on the other hand, is far behind western standards, and, indeed, in many directions is almost non-existent." Again, " it should be possible to stimulate production and increase the welfare of the people by public expenditure designed to give greater economic security (by irrigation works, improved and more varied methods of cultivation, etc.,), better physical well-being (sanitation, water supply, improved public health, etc.) and education. Indeed taxation may be the only practicable means of creating a better and more secure livelihood."[2] In 1935-36, law and order, including the military, absorbed 34 per cent of our receipts.[3]

When so great a proportion of our receipts is absorbed by the elementary functions of the State, expenditure on social services must needs be very small. Our total expenditure on education (Central, Provincial and Local) came to 9 annas per head in 1934-35 as against Rs. 19 in the United Kingdom and Rs. 55 in the U. S. A. Expenditure on medical aid and on agricultural and industrial development is equally small. Nothing is spent as yet on poor relief, social insurance like health and unemployment insurance and old-age pensions. Expenditure in 1945-46 per head on the various items is given below.[4]

	Rs.	as.	ps.
Military Services	0	13	7
Police, Justice, Jails, Convict Settlements, etc.	0	7	11
Education	0	7	2
Medical	0	2	3
Public Health	0	0	11
Agriculture	0	1	7
Industries	0	0	6
Scientific Departments	0	0	5

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1. Malani and Soni—Indian Economics, 1934, p. 609.
2. Indian Statutory Commission Report, Vol. I, pp. 907-908.
3. Ahmad, Z.A.—Public Revenues and Expenditure in India, 1938, p. 83.
4. Ibid, pp. 54-56.

These figures need no comment. Our State is frankly yet a 'Police State, and it has still to enter that era of social services in which other countries have travelled far. The bulk of our public expenditure is not incurred in such a manner as to bring about economic development of the people and improve their taxable capacity.

There is another aspect of our public expenditure to which we may also refer The standards of service maintained by different provinces widely diverge. The poorer provinces which need the help of social services most, are not able to do much in the matter on account of the paucity of their funds. Their services are practically starved. Such a state of affairs is not conducive to a harmonious and all-round development of the country.

We may now conclude by saying that a modern State is not merely a tax-gathering agency, or one for merely maintaining peace and security. Ethical considerations must dominate our financial system. Equity in finance is a counterpart of democracy. Public finance should be designed as a means of social and economic reconstruction. Viewed in this light, our tax system needs overhauling and our public expenditure requires drastic changes. Reduction of land revenues, and water charges, exemption of articles of necessaries of life and millstores from tariff and subjecting luxuries to a higher duty, disappearance of the excise revenue, taxation of agricultural incomes on a progressive scale, steepening of progression in higher levels of income-tax, lowering a bit of the minimum exemption limit and levying of succession duties and taxes on windfalls are some of the measures that must be taken sooner or later.

But if of necessity the tax system continues to be regressive, at least public expenditure must set this balance right. As a matter of fact, we should, in the present circumstances, look more to changes in public expenditure to undo the maladjustments of our financial system. Only a heavy reduction in the military and civil administration expenditure can enable us to introduce an element of social justice in our financial system. Public expenditure should be so designed as to benefit the peasants, the factory workers and other poorer sections of the community more and more. At present everything is being done on a small scale. Shall we also not have our "Beveridge Scheme" to provide the Indian masses security from want and fear ?

Prof. Vakil makes the following suggestions that could have been adopted to safeguard the interests of our own Dominion :

1. The Government of Pakistan should have mobilised the Government of India securities held by its nationals and exchanged them for its own securities of equivalent value. These securities could have been handed over to the Government of India and to that extent Pakistan's liabilities could have been reduced. Instead of the Government of India paying interest to Pakistan nationals the Pakistan Government would have paid it.

2. As Pakistan is known to have a large exportable surplus and is estimated to have a favourable balance to the extent of Rs. 47 crores a year, a speedier settlement of amounts due from Pakistan should have been insisted upon.

3. There should have been an economic and commercial agreement as an essential corollary to the Financial Agreement.

4. Division of assets and liabilities of the Punjab and Bengal should have formed an integral part of this agreement.

15. Financial Provisions in the Draft Constitution of India, 1948.

(1) There are certain duties levied by the Union but collected and appropriated by the States, *e g.*, Stamp Duties and Excise Duties on medicinal and toilet preparations.

(2) The following duties and taxes shall be levied and collected by the Government of India, but shall be assigned to the States :

(*a*) Succession Duties and Estate Duty on property other than agricultural land ;

(*b*) Terminal Taxes on goods or passengers carried by rail or air ;

(*c*) Taxes or railway fares and freights.

(3) There are taxes levied and collected by the Union and distributed between the Union and the States, *e g.*, taxes on income other than agricultural income.

(4) The Union Parliament can levy surcharges on certain duties and taxes for its own purposes and the whole proceeds shall form part of the Union revenues.

(5) The Union may levy and collect certain taxes and may distribute the proceeds between itself and the States, *e g.*, Excise duties other than those on toilet and medicinal preparations.

(6) Export duty on jute or jute products shall not form part of the Union revenues but shall be assigned to the States in which jute is grown.

(7) There is a provision for the grants-in-aid from the Centre to the States needing such assistance. These are to be given to enable such States to meet the cost of such schemes of development as may be undertaken by the States with the approval of the Government of India.

(8) The State Legislatures shall have power to make laws with respect to taxes and professions, trades, callings and employment for the benefit of the State or of Municipality District Board, Local Board and other local authority, But the total amount payable by a person shall not exceed Rs. 250/- per annum.

(9) Five years after the commencement of the Constitution and every fifth year thereafter a Finance Commission shall be appointed which shall consist of a chairman and four other members appointed by the President. The Commission shall make recommendations as to—

(*a*) The distribution between Union and the States of the net proceeds of taxes which are to be distributed between them and the allocation between the States of the respective shares of such proceeds ;

(*b*) the principles which shall govern the grants-in-aid to the States out of the revenues of India ;

(*c*) the continuance or modification of any agreement entered into by the Union with any State as regards the levy, collection and distribution of any tax or duty leviable by the Government of India in such State ;

(*d*) any other matter referred to the Commission by the President.

(10) The Union or State may make any grants for any public purpose.

(11) Rules have been provided for the custody of public moneys.

(12) The property of the Union shall be exempt from all taxes.

(13) The Union Government can borrow upon the security of the revenues of India within such limits as may, from time to time, be fixed by Parliament. The State Government can also raise loans in the same manner.

(14) The Government of India may make loans to States subject to such conditions as it may think fit to impose.

The allocation of revenues in the proposed constitution is substantially on the same lines as laid down in Government of India Act, 1935. The new arrangements suffer from the old defects. Over-centralisation of revenue powers will only continue the present rigidity of the financial structure. As a consequence, the potential sphere of provincial autonomy is very much curtailed. The expanding resources still remain with the Central Government, whereas its functions are more or less stationary, whereas the States are saddled with the responsibility of developing beneficent activities, but they are provided with stationary or even declining revenues. The main sources of provincial revenues will be Land Revenue, Excise and Stamps and in certain provinces forests and irrigation. The Union Power Committee has recommended that proceeds from certain Central sources, *viz.*, customs, excises, export duties, taxes on income other than agricultural income and taxes on companies should be distributed in reasonable shares between the provinces. East Punjab, Assam and Bihar will normally rely on Central aid. Provincial subventions will have to be given to them to mitigate inter-provincial disparities.

Suggestions For Further Reading

1. Ambedkar—Evolution of Provincial Finance in India.
2. Ahmed, Z.A.—Public Revenue and Expenditure in India.
3. Vakil and Patil—Finance Under Provincial Autonomy.
4. Shafaat Ahmad—Federal Finance.
5. Report of Indian Taxation Enquiry Committee, 1924-25.
6. Ramaswamy Aiyangar—Some Trends in Modern Public Finance.
7. Kale—India's National Finance Since 1921
8. Dubey—Indian Public Debt.
9. Vakil—Fiscal Developments in British India.
10. Shah, K. T.—Review of Indian Finance, 1927-34.
11. Gyan Chand—Federal Finance.
12. Thomas, P. J.—Growth of Federal Finance in India.
13. Misra—Provincial Finance.
14. Reserve Bank Reports on Currency and Finance.
15. N. P. C. Report on Public Finance.

CHAPTER XXXIV

ECONOMIC PLANNING IN INDIA

1. *Laissez-faire* ruled the minds of people and governed the economic policies of nations for a long time. It was believed that free-play of self-interest was conducive to maximum individual benefit. It was argued that the consumer would be benefited by lower costs and the producer by higher gains. In recent times, however, *laissez-faire* has lost its old and there is a swing-back to State-interference. Thus, today, the issue is not between a plan and no plan but between degrees of planning under State auspices. As Pandit Nehru says : "The idea of planning and a planned economy is accepted now in varying degrees by almost every one."

In the short space of thirty years the world has been shaken to its very foundations by two world wars. The second one was more devastating than the first and the next one is bound to do even more havoc. The Church and the State have so far failed in putting a stop to such cataclysmic upheavals. It is the economist's turn now. If he plays his innings well enough to secure co-operation of all countries of importance and succeeds in raising standards of living of all people without distinction of colour and creed, he would have achieved his end. Obviously India cannot pull its full weight towards world recovery so long as she is a land of hunger, disease and misery. "Due to dependency rule her citizens are (still) full of apathy, indifference and fatalism. Their working calibre, both individually and in a collective capacity, has suffered grievously and their living conditions brought to the verge of disaster."[1]

The standard of living is low and the vast majority of people live in wretched poverty. There is an ever-present menace of rapidly growing population due to the handicap of ill-developed resources. The *per capita* income is low. The following comparative figures are an index to the miserable poverty prevalent in India.

U. K.	1931	... ... £ 76
U. S. A.	1931	... ... £ 89
Germany	1925	... ... £ 39
U.S.S.R.	1925	... ... £ 10
Japan	1925	... ... £ 14
Egypt	1938	... ... £ 21
India	1931	... ... £ 5

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[1] Sir M. Visvesvaraya's address at the All-India Manufacturers' Organization.

Even this, however, does not provide a true picture of the dreadful condition of the poorest classes whose consumption is next to nothing. The Bengal Famine of 1943, and our present dependence on foreign food supplies have proved the need for increasing the production of food grains in this country. In 1933 Sir John Megaw's report revealed that only 39 per cent. of the people could be said to be adequately nourished while 41 per cent. were poorly[1] and as high a proportion as 20 per cent. were very badly nourished. Dr. Aykroyd speaking of India as a whole, more recently, said that, "there is no doubt that a high percentage of the population does not get enough to eat" and he places the proportion of the total population which is normally under fed at as high a level as 30 per cent.

Further, there is not only the quantity of food supply that is deficient, but its composition is also unsatisfactory. The first report by the Interim Commission on Food and Agriculture says : "We now know that certain diseases, which affect an immense number of people, are caused solely by the failure to get enough of the right kind of food." It has been demonstrated beyond doubt that protective foods like milk, green vegetables, eggs and fruits are essential for the growth of health and efficiency of the human organism. India is not producing them on a sufficient scale. Hence the high rate of mortality.

The lowness of the *per capita* income is due to the lop-sided development of Indian economy. Too much dependence on agriculture keeps the standard of living low. Gandhian economy based on the self-sufficiency of the village will remove unemployment but will not give the people an opportunity to enjoy a higher standard of living. For that, industrialization of the country is essential. Only then can the Indians have any hope of better housing facilities, more clothing and adequate medical attention.

It is thus clear that there is an urgent need for planned economy due to the defects of the present system which may briefly be summed up as (*a*) sufficiency of production, (*b*) instability of economic life and (*c*) inequality of distribution.

Insufficiency of production is due to the unemployment or under-employment of factors of production. This is due to the fact that for her present stage in development, India is over-populated. Her resources are vast no doubt but they are not fully utilised. She does not possess enough capital, nor does she have enough machines or technicians. Most people in the villages—and no less than 87 per cent of them—live there—would still be an ornament to the middle ages.

It is an undisputed fact that Indian economic life is unstable. Agricultural life is at the mercy of an uncertain rainfall. The partition of the country into two dominions has made things worse. Most of the canal-irrigated areas in the north-west have gone over to Pakistan. India has thus to depend on foreign imports for large quantities of food and industrial raw materials like jute and cotton. This dependence has resulted in a deficit of over Rs. 95 crores in India's foreign trade in 1948-49.

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[1] Nutrition ; W. R. Aykroyd, Oxford Pamphlets on India.

Besides, there are large inequalities in the distribution of India's national income. Prof. K. T. Shah and Mr. Khambatta conducted an investigation in 1924 in the distribution of income in India. They found that if there were one hundred rupees to be distributed among 100 persons, roughly Rs. 33 would fall to the share of one member of the rich classes; Rs. 33 would go to 33 persons of the middle classes and the remaining thirty-three rupees to 66 members of the working classes. Dr. V. K. R. V. Rao found in 1931-32 that while the average income was only Rs. 51 per head in rural areas, it was Rs. 166 in urban areas. It should be borne in mind that only 12 per cent of the population lived in urban areas at the period of enquiry. Other enquiries of a similar type also point to the extreme contrast between the poverty of the many and the comparative affluence of the few.

It is thus seen that there is an urgent need for putting into operation a comprehensive plan which would reorientate the economic life of the country from all aspects.

2. Objective of Planning. Our objective, as of other nations, is that "the citizen of democracy should be guaranteed *as of right* enough food to maintain him in health. He should be assured of a minimum standard of shelter, clothing and food. He should be given full and equal opportunities of education. He should have leisure and facilities for enjoying it. He should be secured against the risk of unemployment, ill-health and old age."[1] To achieve this we need a well thought-out plan. Now, a plan involves systematic effort to achieve ends laid down beforehand. It aims at the canalisation of efforts to develop partially developed or undeveloped resources. It concedes that freedom to serve and to earn is a citizen's birthright and it pursues the ideal of full employment for every one who seeks work. It should, however, be remembered that while a given corporate plan is bound to work for the good of the majority, yet some measure of individual independence will have to be sacrificed to make it successful.

Every plan aims at producing commodities at minimum cost but no plan would be complete unless it also aims at a correct balance between supply and demand, thus avoiding the extremes of over-production and shortage. All thinking minds are keenly exercised over the problem of finding an antidote to the great ill of Indian poverty and to create a happier and more effective citizen. There has been a deluge of plans in India recently. Like advertised medicines each claims to be the panacea for all economic ills. We will review here the five most important of them :—

(1) The Bombay Plan.

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[1] Sir J. P. Srivastava—Aim of Post-war Reconstruction.

(2) The People's Plan.

(3) The Gandhian Plan.

(4) Natural Planning Committee's Plans.

(5) The Government of India Plan.

3. Tests for the Effectiveness of a Plan. The figures involved even in a modest plan to meet the needs of over 300 million souls are bound to be immense. But that need not stun us into indifference. The plan should be scrutinised and subjected to a few simple tests before being recommended.

(1) Does it make for increased production on a sufficient scale?

(2) Does it bring about a more equitable distribution of wealth in the country?

(3) Are the methods of production conducive to greater individual liberty and enough leisure?

(4) Are the methods of financing the plan practicable and beneficial?

Very useful and instructive conclusions would be arrived at if the plans mentioned above are subjected to these tests.

4. The Bombay Plan. The authors of this scheme aim at raising the standard of living in India to such an extent as to provide every Indian with minimum requirements of life, *viz.*, a balanced diet, suitable housing accommodation and necessary clothing. It is also their aim to see that minimum standards of health and sanitation come to prevail in India. We have already noticed the wide gulf dividing India and the rest of the civilized world in matters like these. The scheme is a modest attempt in the direction of rectifying this situation. The authors hope to achieve their ends in the course of 15 years by doubling the *per capita* income which, allowing for the increase in population, would mean a threefold increase in the present aggregate income of the country. Under the scheme the income from industry is expected to increase by 500 per cent., that from agriculture 130 per cent. and from services 200 per cent. It will also incidentally establish a balanced economy in the country. Instead of industry, agriculture and services contributing 17 per cent., 53 per cent., and 32 per cent, respectively, to national income on the basis of 1931-32 figures, their contribution, after the execution of the plan, will be 35 per cent., 40 per cent. and 20 per cent., respectively.

The scheme may now be briefly summarised. It has fixed targets to be hit in the development of industry, agriculture, communications, education, health and housing. Regarding industry, basic industries, like power, mining and metallurgy engineering, chemicals, transport, etc., are considered of primary importance and attention is to be directed first to their development. But steps have to be taken simultaneously to develop industries for the production of consumer's goods. These industries include cotton, silk and woollen industries, glass industry, leather goods industry, paper, tobacco, oil industries, etc. Free choice by consumers is an essential feature. In view of our cheap manpower special importance is attached to the development of cottage and small-scale industries so that the necessity of purchasing and setting up expensive plant and machinery may be obviated. The output of all industries is to be increased fivefold.

The output of agricultural products is to be doubled. The scheme contemplates a redistribution of area under different crops according to the exigencies of international trade and the requirements of the domestic market. It is pointed out that agricultural progress will be out of the question until the three main problems of agriculture, *viz.*, uneconomic holdings, rural indebtedness and soil erosion, are satisfactorily solved. Co-operative farming is suggested to solve the problem of uneconomic holdings and afforestation is suggested to prevent soil erosion. It will also be necessary to increase the area under cultivation and to increase the yield per acre by means of better irrigation facilities, a scientific system of rotation of crops, use of better manures, seeds and implements. Model farms are proposed to be set up to demonstrate what can be achieved by scientific agriculture.

The increased volume of industrial and agricultural production will lead to a large movement of goods. To meet this increased traffic an expansion of the means of communications and transportation will be necessary. It is proposed to add 21,000 miles to the existing railway mileage, doubling the existing mielage of roads and to provide more labourers to stimulate coastal shipping.

Alongside the development of agriculture, industry and communications, it is proposed to launch schemes for the provision of better facilities in education, medical aid and sanitation and housing. It is hoped to provide a balanced diet which is calculated to cost Rs. 65 per annum for a growing adult and not much less for a growing child, to see that every person gets 30 yards of cloth in a year and a house to live in. It is expected that each village will have a well-equipped dispensary and each town a well-equipped general hospital as well as a maternity hospital, besides special institutions for the treatment of tuberculosis, mental disorders, cancer, venereal diseases, etc. Each village is to have a school of its own and there is to be provision for secondary and higher education in adjoining towns.

The total capital requirements of the plan have been put at Rs. 10,000 crores distributed as under—Industry Rs. 44,80 crores, agriculture Rs. 12,49 crores, communications Rs. 940 crores, education Rs. 490 crores, health Rs. 450 crores, housing Rs. 22,00 crores and miscellaneous Rs. 200 crores. It is proposed to meet this cost by various sources of finance, internal and external, which have been estimated as follows: Hoarded wealth Rs. 800 crores, sterling securities Rs. 1,000 crores, balance of trade Rs. 600 crores, foreign borrowing Rs. 700 crores, savings of the people Rs. 4000 crores while Rs. 3400 crores are proposed to be created by borrowing from the Reserve Bank against *ad hoc* securities.

The plan is to be executed in three stages, each covering a period of five years. It really, therefore, consists of three five-year plans.

Criticism of the Plan. This, in brief, is the plan. It seems to have caught the imagination of the people and has evoked comments from economists and publicists both inside the country and outside it, some of which are, of course, favourable and others unfavourable. Some of the objections put forward to the plan are :—

1. That it is authorisation in character and will introduce a sort of economic dictatorship. But this is a false fear. The authors do not wish to impinge on the free choice of consumers and there is no intention to crush freedom of enterprise. No doubt some regimentation is inevitable, but there is no reason why it should not have a democratic sanction.

2. That it is a big-business plan, implying that a few big business men will come to control the resources of, and production in, the country. There is no evidence of such a fear in the explanations that the authors have given in this connection.

3. That capitalism will be strongly entrenched in the country. This criticism comes from the Radical Democratic Party which has prepared 'a People's plan'. But there is room for State capitalism under the plan.

4. That plan does not give full details of the type of agricultural organisation it contemplates. It admits that "nowhere in India has the (Zamindari) system created, as was expected of it, a class of landlords willing to supply capital for the improvement of the land and the extension of cultivation." But the authors of the plan pin their faith on co-operative farming without depriving the owners of their rights. They should have boldly advocated the ryotwari system of peasant-proprietorship and a complete abolition of the Zamindari system after paying off the landlord's claims on a fair basis.

This would also involve the fixing of the size of a cultivated holding. The size may vary in different areas according to topographical and climatic conditions between two limits determined by the working capacity of a family and the capital available to it.

5. That it is unsound to finance the plan by 'created' money and that inflation is implicit in the scheme. The objection, coming from orthodox finance, as it does need not deter us. We are inclined to agree with the authors that 'finance is merely a camp follower' and we may subscribe to the dictum that 'what is physically possible is also financially possible'. As created money is to be used to stimulate production, evils associated with inflation may be avoided.

6. That it runs counter to Mahatama Gandhi's ideals and will take the country headlong towards materialism. We have already made it clear that India cannot quit the goal of material prosperity to pursue only spiritual ideals. We do not subscribe to the view that 'it is easier for a poor man to enter heaven !'

7. A minor objection relating to the details is that the costs of the plan have been estimated on the basis of pre war prices. But this is not a matter difficult of adjustment.

Thus we see that the plan has withstood the onslaughts of its critics well. The authors deserve to be congratulated on producing something big and practical. They are anxious to avoid the pitfalls and hardships which the Russians experienced in their big experiment as compared with which it may be described as modest. No doubt, there are difficulties. There are also imperfections. But the authors are fully conscious of them. We may remember their warning that planning without fears is an impossibility. But there is nothing to beat the Bombay Plan as a basis of discussion for post-war economy, if we are really to achieve something like human standards in our mode of living. The greatest obstacle in the way of successful planning, the political dependence of the country, has to our great luck, been removed. A national government enjoying the full confidence of the people is now at the helm of affairs. Intensive efforts are being made to determine a suitable industrial policy and to correct the faults in the distribution of income. A proper solution of these problems is essential before any large-scale plan can be launched. Shelving of the problems may defeat the objects of the plan. It is obvious that the standard of living cannot be raised merely by increasing the national income. Raising of the standard of living of the masses will depend upon the share they are able to secure out of the national income.

The second part of the plan tackles the problem of distribution which was ignored in the first part.

No easy and limitless profits are envisaged. National requirements and not the profit motive will decide the industry to be started. High profits will be observed by the State, thus making available funds for social service like education, medical treatment, etc. and subsidies for essential utility services. What is left of these profits in the hands of individuals will have to be reinvested in industry under an effective system of rationing and price control.[1] "Similar to these which are in force at present, under war conditions, they will be better co-ordinated and more systematically administered.[2] There may be a difference of opinion regarding details in these matters, but everyone welcomes an enhanced income with increased production in all directions—industry as well as agriculture.

The British View. The plan was mooted before the British left India. Consequently the British Press was at great pains to prove the plan faulty and impracticable. The motive for this sweeping criticism is obvious. Britain was anxious not to lose the Indian market for her goods. Having lost a good part of her foreign markets to her better organized and more efficient rivals, she was keen to preserve the Indian market for herself as far as possible. The London *Economist* had no objection to seeing India improve her agriculture and cottage industries but its righteous indignation was aroused at what it called the exploitation of the poverty-stricken masses of India at the hands of the bloated Indian capitalists already guilty of making huge profits during the war years

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[1] Economics and Post-war India, page 22. Dr. S. K. Muranjan.

[2] Plan—Vol. II, page 31.

At the same time it is only fair to refer to the recent speech of Mr. L. S. Amery at the East India Economic Association. The former Secretary of State for India was very positive in affirming that "the Government of the country only wants to see Indian industry developing to the fullest. The last thing, industrialists of this country have in mind, is the idea that the British export industry can best prosper by India being held back in the course of her industrial development." Mr. Amery had, however, to confess that there is a very strong feeling in India that Britain "or at any rate the industrialists of this country would wish to restrict the progress of Indian industry in the interests of British export trade." Mr. Amery thought that this feeling was only a 'superstition' but one cannot run away from the fact that the so-called 'superstition' was based on the hard facts of free trade and Imperial Preference policies thrust on India when such policies did untold harm to Indian industrial interests. Mr. Amery, however, went on to tell the British people in general and industrialists in particular, that "provided we do not think India must always buy what we have always sold her, but are prepared to sell things India needs, there will always be favourable openings for British trade to India and even more favourable opportunities for collaboration between British and Indian industrialists." These were excellent sentiments, but unfortunately there were always mental reservations when such speeches were made and past experience had made Indians, bitter.

Another line of criticism of the Bombay Plan in England was in regard to the provision of finance for its execution. It was claimed that the figures given were not accurate. It should, however, be borne in mind that the authors themselves did not claim accuracy for them. It was admittedly a rough outline of vast figures, but a good deal of spadework was done and the results arrived at were only tentative. Prof. Brij Narain too criticised the methods of finance advocated in the Plan. He would prefer pre-financing of output through an expansion of bank credit as in Germany. He believed that the provision of finance for new enterprise must be made "not by borrowing from the Reserve Bank against *ad hoc* securities, but by means of bills or bank bills. This involves the setting up of special institutions for the purpose of accepting bills on behalf of Government. A bill is self-liquidating when it matures it is paid off, or, when it has done its work, it disappears. It follows that there is less risk of inflation. This is not the case with additions to the note circulation "[1] Inflation is to be guarded against as far as possible. The wage-earners, the salaried classes, and the smaller agriculturists with no surplus to sell, all suffer as a result of inflation Prices have the knack of always running ahead of wages and dearness allowances. Any plan worth the name should avoid such a contingency.

The Bombay Plan—A Compromise Between Capitalism and Socialism. The Bombay Plan foreshadows an economic organisation not unlike the type of society which Prof. Pigu foreshadows in his book, *Socialism vs. Capitalism,* and quotes the passage which in their opinion correctly describes the society they have in view and the role the State will have to play in it. "If, then, it were in the writer's power to direct his country's destiny, he would accept, for the time being, the general structure of capitalism but he would modify it generally. He would use the weapon of graduated death duties and graduated income-tax, not merely as instruments of revenue, but with the deliberate purpose of diminishing the glaring inequalities of fortune and opportunity which deface our present civilisation. He would take a leaf from the book of Soviet Russia and remember that the most important investment of all is the investment in the health, intelligence and character of the people. To advocate 'economy' in this field would, under his government, be a criminal offence. All industries affected with a public interest, or capable of wielding monopoly power, he would subject at least to public supervision and control Some of them, the manufacture of armaments probably the coal industry, possibly the railways, he would nationalise, not, of course, on the pattern of the Post Office, but through public boards or commissions. The Bank of England he would make in name—what it is already in effect—a public institution, with instructions to use its power to mitigate, so far as may be, violent fluctuations in industry and employment. If all went well, further steps towards nationalisation of important industries would be taken by degrees. In controlling and developing these nationalised industries, the Central Government would inevitably need to 'plan' an appropriate allocation for a large part of the country's annual investment in new capital. When these things had been accomplished, the writer would consider his period of office at an end, and would surrender the reins of government. In his political testament he would recommend his successor also to follow the path of gradualness—to mould and transform, not violently to uproot; but he would add, in large capitals, a final sentence, that gradualness implies action, and is not a polite name for standing still."

5. The People's Plan.[2] While the Bombay Plan, in a way, depicts the capitalist attitude to post-war construction the

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1. Brij Narain—Economic Problems, Vol. II, pp 187-88
2 People's Plan for the Economic Development, being Report of the Post-war Reconstruction Committee of the Indian Federation of Labour,

People's Plan, also called the Royist Plan,[1] represents the independent view of the Indian Federation of Labour on this vital matter. This plan is more comprehensive than the Bombay Plan in that it deals with every aspect of planning including the methods of control for production and distribution of the wealth produced. The entire plan covers a period of ten years. The total expenditure involved during the whole period of planning is Rs. 15,000 crores. This expenditure is distributed in this way :—

	In Crores of Rupees
Agriculture	2950
Industry	5600
Communications	1500
Health	760
Education	1040
Housing	3150

The initial capital expenditure for a period of three years of the plan is estimated at Rs. 1600 crores It is calculated that with this initial investment the plan can finance itself, *i. e*, the State will then find enough funds for further investment as the initial expense is concentrated on items which are expected to bring in an immediate return. Thus agriculture absorbs 66 per cent. of this expenditure during the first five years, while industries will claim only 20 per cent. of the expense during the same period. Communications are not supposed to be tackled till the fourth year of the plan. The first half of the total period is to be devoted to agricultural development and the second half to industrial development. The expense on industries and social welfare services like education, health and housing will depend on the surplus produced by agriculture. Thus the main emphasis of the plan is on agriculture which is supposed to yield an increase in output of 400 per cent. It is stressed that any attempt to increase the income of the people will have to start through concentration on agriculture which is the main occupation of two-thirds of India's vast population..

To increase the production from agriculture, land is to be nationalized and usury abolished. The area under cultivation is proposed to be increased by 50 per cent. through a rapid extension of irrigation and reclamation of waste areas lying uncultivated. The methods of production are to be mechanized and 25,000 State farms and research institutes equipped with modern mechanical instruments are to be established. It is affirmed that these steps will not only provide enough food for the people and raw materials for the industries but also produce a surplus of these for export to foreign countries for purchase of machinery and equipment in exchange.

Criticism of the Plan. It has, however, not been foreseen that a fivefold increase in agricultural produce will create such a big surplus that in spite of the increased local consumption, it will not be salable in foreign countries at *reasonable* rates, for the U.S.A., Argentina, Australia and Russia will not be idle during the meantime. Such universal overproduction may very well lay the foundation of another world depression of the type of the early 'thirties.

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[1] The People's Plan is mainly the work of Mr. M. N. Roy, the leader of the Left-wing of Indian Labour.

In fact, the plan proposes rapidly to introduce land socialism in India of the type existing in Russia and to adopt the same methods in doing it. The age-old social and religious customs which have ruled Indian life for thousands of years have no value in the Royist Plan and a veritable revolution with impossible objectives is aimed at. An increase of 50 per cent. of the cultivated area in a matter of five years with a complete nationalization of land and an income of Rs. 810 crores from Estate Duty are taken for granted. Industries have been relegated to quite a secondary position and a very wide margin of State control envisaged. The profits from private enterprise have been limited to a bare 3 per cent. which correctly interpreted means the abolition of private enterprise altogether. Prof. Brij Narain with his usual caustic humour brings out the many serious faults of the People's Plan in a graphic manner.[1]

It is, however, seen that the People's Plan lays the necessary emphasis on the important problem of distribution even though it advocates revolutionary methods of production in agriculture. Besides, there is a provision for the expansion of means of communication and transportation. The total milage of railways is proposed to be increased by 50 per cent; and the roads by 150 per cent. A considerable development of internal navigation and coastal shipping is also suggested The State is further required to finance a huge programme of housing, health and education. Along with the controlled development of agriculture and industries, the process of distribution is also to be firmly controlled. Prices of all commodities are to be fixed and their distribution undertaken (as an alternative channel to private enterprise) through a network of co-operative societies which will purchase their stores direct from collective farms and State controlled factories.

For the period of ten years covered by the Plan, the following Schedule of Investments is proposed :—

(*In Crores of Rupees*)

Year.	Agriculture	Basic Industry	Consumer's goods Industry	Communication	Health	Education	Housing	Total
1	200	100	...	...	...	...	...	300
2	350	100	100	..	20	30	...	600
3	450	100	100	...	20	30	...	700
4	500	100	150	50	30	37	...	867
5	450	150	250	100	40	90	274	1354
6	450	300	400	200	50	100	288	1788
7	250	350	450	300	80	170	480	2060
8	100	400	500	300	120	180	848	2448
9	100	500	500	300	200	200	726	2526
10	100	600	550	250	250	223	534	2537

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[1] Brij Narain, Post-war Planning, p. 243, *et seq.*

The above figures show that the Royist Plan puts a very much greater emphasis on consumer's goods industry than on basic industry. It aims to spend Rs. 3,000 crores on the former as against only Rs. 2,600 crores on the latter. It clearly advocates that a relatively greater emphasis should be laid by the planning authority on consumer's goods industries. Cottage industries are simply ignored while the importance of basic industries is not sufficiently recognized. 'The Plan asserts that in the world, as it is likely to emerge after the present war, the problem of defence will not be a pressing problem and utilisation of resources for the purpose of defence a sheer waste.'[1] And yet Russia itself which the Royists are so fond of holding up for imitation propose to spend uncounted millions on armaments, so as to be ready presumably for a third world war.

The Plan makes too bold a presumption to assert that "at the end of ten years, agricultural production will increase by 400 per cent or more and industrial production by 600 per cent. The standard of living of the masses will rise by 300 per cent. exclusive of the services such as health, education and housing which will be provided for them."[2]

The People's Plan like the Bombay Plan does not contemplate provision for unemployment and social insecurity. It does not provide for any agricultural and industrial fluctuations and trade cycles. It is not safe to forget them when very big problems which entail a great deal of uncertainty are being tackled.

The sum of Rs. 15,000 crores required to finance the execution of the plan is to be obtained thus :

	In crores of rupees.
(1) Sterling Balances	450
(2) Initial finance—Estate Duty, etc.	810
(3) Income from nationalized land in the first year of the plan	90
(4) Income from agriculture for reinvestment during the period of the plan	10,816
(5) Income from industries for reinvestment during the period of the plan ...	2,834
Total	15,000

6. The Gandhian Plan. The plan is not so ambitious in its estimates of expenditure as the others we have considered. It claims that India is a poor land and should start modestly. It proposes to spend a total sum of Rs. 3,500 crores in a period of ten years, and distributes it thus :—

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1. People's Plan, page viii.
2. People's Plan, page ii.

(In crores of rupee)

	Non-recurring	Recurring
Agriculture	1·175	40
Rural Industries ...	350	—
Large-scale and Key Industries ...	1,000	—
Public utilities		
Transport	400	15
Public Health	260	45
Education	295	190
Research	20	—
Total	3,500	200

The Gandhian Plan is idealistic and not based on cold economic reasoning. It attaches main importance to the welfare of rural areas, development of agriculture and subsidiary cottage industries. It asserts that "our planning should be based on the indigenous culture and civilization of the nation and should be in the nature of an organic growth. It should not result in excessive regimentation of the masses by diverting them and their legitimate liberty in social, economic and political life. It must plan for democracy and not for totalitarian control."

Considering planning in other parts of the world, the Gandhian Plan thinks that the British system of planning is a roundabout process of first allowing the capitalists to exploit the poor and then throwing crumbs of financial help to be exploited by taxing the exploiters. This procedure is claimed to be unnatural and degrading. The Soviet plan, 'far from being classless, is dominated by a new and powerful section—the Managerial class'[1]. The individual has no independence though materially he is much better off than before. The fascist plan gave full employment but not a higher standard of living. The people were taught to prefer guns to butter.[2]

Gandhiji does not want to plan along the lines of large-scale industry. According to him 'machine' is the handmaid of capital, ousts human labour and concentrates wealth in the hands of the few by the exploitation of the many. On the other hand, production in the village by the village communities will be for immediate use and not for distant profitable markets Each village or group of villages is meant to be self-sufficient. Mechanisation is considered an evil and it is only reluctantly that a few basic industries mainly needed for the evolution of cottage industries and the defence of India are advocated. The total expense on these is put at Rs. 1,000 crores including Rs. 500 crores required to buy out foreign interests.

A balanced diet (according to Dr. Aykroyd's calculations) yielding 2600 calories of heat, 20 yards of clothing per year, housing accommodation of 100 sq. feet for each individual, free and compulsory education for every boy and girl, public utility services for all including medicinal and recreational facilities like playgrounds, indigenous theatres and folk dances are laid down as the objectives of the plan.

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[1] Burnham—Managerial Revolution

[2] The Gandhian Plan—Penguin series by S. N. Aggarwal.

The funds are prepared to be obtained thus :—

Internal borrowing	...	... Rs. 2000 crores
Created money	...	... Rs. 1000 crores
Taxation	....	... Rs. 500 crores

It is further proposed that the income and super taxes shall be more steeply graduated, salt tax abolished, higher agricultural incomes taxed and lower ones relieved. Military expenditure will be reduced drastically and no civil servant will receive more than Rs. 500 per month.

Criticism. The Gandhian Plan makes a full use of man power resources. It aims at making people conscious citizens, providing themselves an honest livelihood. But these people will have to content themselves with a very low standard of living. Standards can't rise unless there is an increase in capital equipment. The Gandhian Plan condemns artificial methods of birth control and advocates "continence as the only practical and desirable method of checking undue increase in numbers," and equally strongly condemns intensive capital development, yet hopes for an improvement in the standard of living which will check the existing increase in numbers. In the words of Dr. John Matthai, "The Gandhian Plan is basically the reverse of the Industrialists' Plan The former wants the economic structure to the based on agriculture whereas the Bombay Planners think that the approach must be from industry to agriculture." Gandhian philosophy may well be called 'Utopian' when it aims at reconstructing a medieval economy which, to say the least, is unscientific. It stresses the ideals of maximum decentralization and minimum State control These ideals do not well harmonize with the ideals of nationalization of industries which calls for rigid State control. It is feared that "a decentralized economy will create an economic vacuum within the country which will provide an overwhelming attraction to the highly developed material forces outside. Thus the economic arrangements of the Gandhian Plan will have to be defended by tariff walls at first and later with tanks, planes and submarines."

The Plan has great merit as it is simple and lays emphasis on the improvement of village economy. So far villages have been neglected and are in wretched poverty. Any plan that does not aim at their regeneration is meaningless. At the same time, the plan condemns industrial concentration. It has been admitted that spreading out is better in these days of atom bombs.

All the same, the Plan is retrograde in some of the measures it advocates. Barter and hand-spinning will push the country backward rather than forward.

7. The N. P. C. The National Planning Committee was formed in 1938 by the Working Committee of the Indian National Congress. The objective was to take steps to ensure an adequate standard of living for the masses and to relieve their poverty. It was, indeed, "to observe a due proportion between the various forms of new wealth, its equitable distribution among the members of the community and to secure such adjustment between the interests of producers and consumers, individuals and the community; collectively ...to secure a balance between the several interests." The various viewpoints were to be harmonized and a plan was to be drawn which would apply to a free India.

Industries required for the defence of the country were to be owned and worked by the State; key industries too were to be nationalized by and by Public utilities were to be owned by the State and worked by one of its organs. In some cases Public Trusts were to be created to avoid inefficiency and red-tapism.

Mines, quarries, rivers and forests were considered forms of national wealth and their ownership was to vest absolutely in the people of India collectively. Land policy too was determined. Zamindari was to be abolished and the co-operative principle of farming was to be applied to the exploitation of land, thus incidentally getting rid of uneconomic holdings. So far as credit is concerned it was considered desirable that the Reserve Bank should be nationalised, all banks, scheduled and non-scheduled, and insurance companies were to be under the strict control of the Reserve Bank. Foreign trade of India was to be regulated to promote national interests. A control over imports as well as exports was essential in order to help indigenous industries in distress and to earn enough foreign money to buy necessary goods like machinery, plant, food and industrial raw materials.

As a matter of fact 29 sub-committees were appointed to investigate each and every one of the various problems facing the country and to submit reports and offer suggestions for their correct solution. Detailed terms of reference and questionnaire were given to each of the sub-committees. The co-operation of the Government of India, various provinces, Indian States and Chambers of Commerce was asked for. No single aspect of the economic life of the country was neglected. The investigations of the National Planning Committee would serve as a preparatory base for an all-India survey. Unfortunately complete co-operation was not given by various provinces and bodies. Almost every sub-committee complained of lack of data.

By now *all* the reports have been published and it is seen that, in spite of the absence of up-to date statistics in many directions, the reports are of great educational value and serve a useful purpose in so far as they fully discuss the many inadequacies in the economic life of this country.

We may conclude that the National Planning Committee has given us a plan tending towards socialism, at the same time giving to private enterprise a respectable share in trade and manufacture of the country. Equal opportunities are to be given to all ; special opportunities are to be given to backward groups ; private property is not to be abolished, but at the same time basic industries are to be under public ownership while land is to be exploited on a co-operative basis. At the same time, co operatively-controlled small-scale industries are to be encouraged in rural areas.

8. The Government of India Plans After the Department of Planning and Development was placed in the hands of Sir A. Dalal in August, 1944, the Government of India, in spite of its proverbial dilatoriness and red-tapism, did some important work in post-war planning. The Report published in the form of a Yellow Book in November, 1944, was only a beginning and was primarily meant to provide guidance to planning authorities. Later the complete plan with all relevant details was published The plan was split into two parts, a short-term plan and a long-term one.

The objectives of the short-term plan which was to cover five years starting from 1947-48 mainly consists of :—

(*i*) The resettlement of defence services personnel and labour displaced from war industry, military works, etc. ;

(*ii*) the orderly disposal of surplus military stores and equipment, land and buildings ;

(*iii*) the conversion of industry from war to peace ; and

(*iv*) the removal or adjustment of controls to suit peace conditions.

Of the long-term projects, there are some which involve large scale capital expenditure and are of basic importance to development as a whole. These are :

(*i*) The development of electric power as the basis of industrial development and to a lesser extent of agricultural development, pump irrigation and rural industry ;

(*ii*) the development of industry with special reference to the production of capital goods and consumer's goods required by the bulk of the population, and also the maintenance and development of small-scale and cottage industries ;

(*iii*) the development of road communications and transport services on a comprehensive scale, especially in rural areas ; and

(*iv*) the improvement of agriculture, and with it, the development of irrigation, anti erosion measures, and land reclamation.

It is proposed to lay the foundations of improved education, housing and health at the same time because these services besides being essential for the welfare of the masses, are a prerequisite for the development of agriculture and industry. Technical education is perhaps the most important of such services at the moment. The

Government comprehend that the real bottleneck to progress will not be the provision of finance so much as trained personnel and capital goods. To remove the former difficulty they propose to send abroad a number of students (500) for training in technical lines. Sir Ardeshir said : "We hope to get most of the training schemes in hand before the end of the war, and specially to send students overseas at an early date. There is also under consideration the setting up of Central institutions for training, such as a Central Technological Institute on the lines of the Massachusetts Institute of Technology, an all-India Medical Centre, and perhaps a Central Agricultural College. These institutions, and possibly others, will be mainly for post-graduate and higher training."

An All-India Basis. The Central Government will not only initiate all plans and policies for subjects for which it is responsible, but will also provide expert advice to provinces and States and endeavour to ensure a common policy on important questions; ensure interchange of information and possibly of technical advice between provinces and States ; provide *financial advice and assistance* where considered justifiable or necessary ; assist in the procurement of plant or technical staff and co-ordinate scientific research and experiment, expert and technical investigations, training of technicians, etc.

Planning is intended for India as a whole, but it is stressed that this does not prejudice the constitutional issue for whatever form the constitution may take in the future and whatever the measures of provincial and State autonomy under it.

The problem of distribution, too, is not neglected. It is clearly laid down that steps will be taken to ensure an equitable distribution of the wealth that is produced. Planning, as contemplated in the report, will ensure to the poorer classes various amenities, free, or at reduced cost, such as education, medical relief, water supply and other public utility services, including electric power. Labour must get a fairer deal in the form of reasonable wages, maternity and sickness benefits, holidays with pay and such like provisions. Efforts will be made to ensure that the amenities provided under the plan are more especially utilized for the benefit of the scheduled and backward classes so as to raise them to the level of their more fortunate fellow-citizens.

Financing of the Plan. The Government of India estimate that a round figure of Rs. 1,000 crores will be available for the first five-year period. Approximately half of the total sum will consist of revenue surpluses while the remainder represents loans which might be raised by the provinces and the Centre. The figure of Rs. 1,000 crores does not include amounts which might be raised from the market for private enterprise and investment. It is likely that this too may approach Rs. 1,000 crores.

The Government provisionally suggest that capital expenditure on power development, roads and irrigation will be financed out of loans, and in the case of industrial development, out of private capital. Recurrent expenditure on services including the service of loans, and expenditure on social services shall be met out of revenue

The success of Government policies will depend on the contentment, health, and efficiency of labour and steps are promised to be taken for the improvement of employment services and for the extension of social security, welfare and health schemes.

A Health Insurance Scheme. A health insurance scheme was submitted to the Government of India by Prof. Adarkar, Officer on Special Duty in the Labour Department, to tackle the problem of labourers' sickness. It covers 12 lakhs of labourers out of the 20 lakhs or nearly 60 per cent. of the total factory workers in India. The scheme is to apply in the first instance to three groups of factory industries, namely, textiles, engineering and mining and metals. The scheme is compulsory in character and provides security against ill health to the workers, whether permanent, temporary and casual. It provides that the emplo ers should pay Rs. 1-4 and the permanent employee As. 12 per month. In case the Government agree to make a contribution, the employer will pay As. 14; the permanent worker As. 10 and the Government As. 8 each. This will entail an expense of Rs. 72 lakhs in a year for the Government. The scheme provides medical benefit including free medical attendance and treatment without limit for the worker. Cash benefits will be subject, it is stated, to certain conditions; regarding 'qualifying' and 'waiting' periods. Prof. Adarkar also recommended a scheme of insurance for disability and the provision of maternity benefit through insurance in place of the present Workmen's Compensation Act. The scheme has been styled as an "Epoch-making event in Indian iabour legislation."[1]

Agriculture. In order to satisfy the needs of the increasing population, area classified as cultivable waste was to be brought under cultivation by introducing new irrigation schemes, by installing electric tube-wells to utilise the sub-soil water, by building tanks, by adopting modern dry-farming methods and comprehensive contour bunding in the Deccan and Rajputana and by reclaiming water-logged areas and rehabilitating eroded lands.

As a result each individual will have more than a lb. of cereals a day in addition to protective foods like milk, vegetables, fish and meat. In fact, the following increases on existing production are fixed as minimum targets :—

Cereals	10%
Vegetables	100%
Pulses	20%
Fats and oils	250%
Fruits	50%
Milk	300%
Fish and eggs	300%

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[1] Commerce, for November, 11, 1944.

To stimulate production (*i*) land revenue was proposed to be adjusted to prices, and partly paid in kind so as to ensure automatic relief for the cultivator where prices were low and (*ii*) prices of agricultural commodities established at economic levels.

In order to ensure a sufficient supply of raw materials for the growing industries and for the export market for the procurement of capital goods, crop planning was to be adopted while freedom from undue restriction was ensured to the actual user of the land. The plan said, "Adequate arrangements shall be made for rural finance. The Government shall use compulsion in the use of improved varieties of seeds, in the control of animal breeding, in the consolidation of holdings, in preventing further fragmentation and in marketing the produce. Each province shall have 20% to 25% of its area under forests properly distributed to enable every village to have its fuel supply reasonably near."

Industry. An intensive development of industry is essential to enable the provision of social amenities contemplated under the plan. In the beginning important capital-goods industries, considered essential for national purposes, shall have preference. The iron and steel industry, the heavy engineering industry, the heavy chemical industry, the machine tool and fertilisers industries may be mentioned in this connection. In order to find an outlet for the created purchasing power consumer's goods industries shall be developed. Cottage and small-scale industries are of this type.

There are certain industries like the armaments industry which the State shall own and manage in its interests. There are others for which private capital may not be forthcoming. They need to be established by the State, *e.g.*, the ammonium sulphate industry. But the most usual form of State relationship with industries will be that of State control through the nomination of directors, licensing, limitation of dividends, etc. They will be operated for public benefit after providing a reasonable return for capital and enterprise.

Technical training will be given in India and abroad through scholarships, and experts in machinery provided where needed. It will be seen that capital is issued in India, that the directorate is largely Indian and that the management of industry rests in Indian hands. Ample provision shall be made for scientific and industrial research, geological and mining surveys, power and transport facilities, tariff and subsidies, priorities for machinery and financial help.

Transport. Every aspect, road, railway, air, internal marine, coastal and deep-sea transport, has been tackled and targets laid. The details have already been discussed in the Chapters on Transport.

Public Health, Education, etc. The plan deals with all branches of education and endeavours to present an integrated scheme covering the entire field. It envisages free compulsory education between the ages of six and 14 and before that, nursery schools and infant classes. In addition, adult vocational and non-vocational education and employment bureaus are also proposed. The purely cultural and recreation side of education is not neglected as the plan attaches particular importance to the provision of the widest facilities for encouraging boys and girls, men and women, to equip themselves as individuals and to make a profitable use of their leisure. It also foresees the necessity for enlarging and making more practical the present provision for technical, commercial and arts instructions at all levels in order to provide India with research workers, executives and skilled craftsmen. The estimated cost comes to Rs. 312 crores gross or Rs. 277 crores net per year when the plan will be in full operation in its 14th year. A national health policy must be comprehensive in its scope. It must have an objective of maximum attainable health of every individual, infant, child, mother and adult. The Health Survey and Development Committee has made far-reaching proposals tackling public health and medicine.

Town planning is not neglected. In addition to the proposed scheme of sickness insurance for industrial workers, other aspects of social security need have also been taken into consideration following the lead of more advanced countries. National research laboratories are proposed to carry on research in all directions physical, chemical, metallurgical, fuel, glass, etc. All research is to be co-ordinated in order to avoid duplication and overlapping as far as possible for which purpose statistics of all kinds are proposed to be collected by trained staff.

The above schemes were mooted at a time when India was a British dependency. She is now free. The constitution of new India is now a known entity. It is a secular State giving no preference to any caste or creed. The several hundreds of Indian States form a part of India today as they never did before. They have either merged with neighbouring provinces or they have been amalgamated into strong economic unions forming units similar to provinces in British times. India is thus ONE. The contemplated measure of economic planning will, therefore, achieve much greater progress now than could ever be expected previously.

9. **Provincial Development Plans.** In addition to the plan promulgated by the Central Government, each of the provinces and States is preparing plans for post-war development. The objective in all cases is to raise the standard of living of the people and to increase the purchasing power so as to enable them to lead a full and rich life. The plans prepared by the various provinces contemplate a total expenditure of no less than Rs. 900 crores which will be thus obtained during the five years starting with 1947 48 ;—

	Crores of Rs.
1. Surplus balances	70
2. Saving in 6 years from 1946-47	100
3. Help from Central Government during the next 5 years	250
4. Loans from Public	480
Total	900

The plans of each province vary according to its particular needs and finances but the aim everywhere is to wage a fight against poverty, squalor, disease, ignorance and idleness.

Due to the partition of India, the economy of East Punjab and West Bengal has been shattered, specially that of the former due to the migration of about 50 lakh non Muslims to India in exchange for about the same number of Muslims gone to Pakistan. The united Punjab was a surplus province with a high standard of living. Today she is deficit in food. Her budget is unbalanced, She has no capital. Although about two years have passed since the partition, lakhs of Hindus and Sikhs are still living in Refugee-camps, suffering untold miseries. Crores of rupees have been spent by the Government of India to help East Punjab but still a great deal remains to be done to rehabilitate her people. There are neither enough houses in urban areas, nor are there enough irrigated lands to meet the needs of the cultivators. Until East Punjab has its capital and the Bhakra dam project starts functioning she will not be able to stand on her legs. Luckily the problem of West Bengal is not so acute. All the same the Government of India have to carry a heavy burden till the refugee problem is solved and the shattered economies of East Punjab and West Bengal restored.

10. Conclusion : One of the usual charges laid at the door of the Government of India in the past was that when they undertook vast schemes they frittered away their energies and resources in importing experts and inviting reports which were shelved. The British Government in India conserved foreign interests in preference to India while Communism stood in the way of putting into operation any comprehensive plan successful. The existence of the vast number of Indian States, each jealous of its own interests and prestige, made conditions worse.

India is now free. She is one compact whole as she never was before. She is secular in outlook. Planning could never be successful in the past to the extent it can today.

Obviously a discussion of the various important plans mooted so far gives us a general idea of the policy which independent India should follow. A future programme of reconstruction which is to be pursued by the Congress Government in India today is fairly obvious. India's dependence on foreign countries r her capital goods and consumer goods has to be got rid f. The standard of living of the people has to be raised. What ussia has been able to do for the illiterate masses, India can so achieve. Russia today is one of the most powerful nations the world. She has shown the world what complete planning in do. Indian traditions and problems are different from that Russia, hence methods used in India must be different. But e Indian problem is of an equal magnitude and India has to be nverted from an agrarian into an industrial country while the andards of agriculture have to be raised simultaneously. We ention below a few of the most urgent requirements in present ay India.

Requisites of Economic Stabilization. Today (1949) India is cing a grave crisis. Her economy is seriously out of order. She deficient in food. She is ill-equipped industrially. Her imports re far greater than her exports for which she can not pay fully. Ve are thus faced with the urgent task of preventing an economic atastrophe from overtaking the country. To achieve this end the conomic system of the country has to be properly balanced to ecure full employment and raise the standard of living of the nasses. "But any programme which does not aim at forging the omponent parts of the country into a co-ordinated system" will nly aggravate the trouble and land us into a morass. Such a rogramme needs action in the following fundamental directions :—

(1) *Self-sufficiency in the food requirements of the people.* Today ndia lacks at least 10 per cent of her food requirements. She had o import no less than 3 million tons of food grains in 1948-49 from ll over the world and has been compelled to take steps to import even larger quantities in 1949-50 Intensive efforts are being made to reclaim wastelands with the help of tractors and construction of river projects to produce enough food, but these efforts are expected to bear fruit only in 1951. During the intervening period, however, food has to be imported at a heavy cost. If these imports are continued for a long time they will irritrievably shelter the economy of India. Short-term plans are, therefore, indicated to increase subsidiary foods like bananas, sweet potatoes and fish which will reduce our foreign dependence as well as conserve dollars for the purchase of capital goods.

(2) *Co-ordination of the Industrial Structure of the country.* This calls for the establishment of many new industries, development of some old ones, nationalisation of basic industries as well as decentralisation of the industrial structure with a view to increasing the employment of unemployed factors in rural areas.

(3) *Covering the gap between exports and imports.* During the years 1948-49 there was a huge deficit of over Rs. 05 crores in India's trade. Such vast deficits cannot be left uncovered. We have to tighten our belts and reduce the imports of consumer goods and luxury articles. Food has to be imported willy nilly, capital goods and industrial raw meterials have to be given a priority. At the

same time the quality and quantity of exports has to be improved. In this connection it has been suggested that tourist traffic from the U.S and the U.K. may be encouraged as far as possible. In fact all possible methods are to be adopted to bridge the gap between our exports and imports.

(4) *Reducing the cost structure in India.* The partition of India into two Dominions has hit the Indian economy hard. Raw cotton and raw jute which were united India's most paying exports have mainly gone over to Pakistan. As a result India is now an importer of these two industrial raw materials. Besides, consumer goods manufactured in India are more highly priced than similar goods in foreign countries. Sugar, cement and cotton textiles may be quoted in this connection. Still further some of the goods exported from India like tea and tobacco are not soundly blended and are quite often adulterated. Due to these various reasons Indian goods are not finding the needed markets outside India. Steps must be taken immediately and urgently to lower the cost structure in those units of production in which the country has to build up an international market as well as to improve the quality of exported goods.

5. *Removing the bottleneck of transport.* India's population has increased greatly and is still in the process of increasing. An internal trade has also expanded. This has resulted in a vast expansion both in passenger and goods traffic which cannot possibly be shouldered by our existing transport system. Roads, railways and water have all to be developed to carry men and material all over the country.

6. *Equitable distribution of national income.* Of course, the ideal is not absolute equality of incomes, but equal opportunities for all and equitable distribution of the national income with a minimum standard of living for all and sundry. India needs socialism, which provides for differences according to ability and worth but not inheritance. Every one who wants work has to be found a job so that he contributes to the national effort. If ill-health or old-age reduce an individual's capacity to work the State must maintain him. The tax policy of the Government should help to reduce the inequalities of income.

The ultimate aim of planning in India must be a New Economic Policy which must be a blend of rational capitalism, nationalisation of key industries and co-operative farming. The State must provide machinery, manures and water to the poor farmer, while the landlord classes who absorb a larger part of the farmer's labour should be got rid off. All this can be done by a full-fledged democratic State responsible to the people. It may be suggested that safeguards should be provided in the constitution so that "absolute power does not corrupt absolutely", the people should have the right of criticism and suggestion.

CHAPTER XXXV

THE NATIONAL DIVIDEND

1. Definition. A man works to satisfy his wants. His economic welfare rests upon the reward he gets for his work. The same is true of a nation. Its economic welfare too depends upon what goods and services are available for the consumption of its people. Thus national wealth may be considered as the sum-total of the possessions of the people in a country—only such possessions as can be appropriated and exchanged. The income that flows from this fund of total possessions is known as national income or national dividend. There are different opinions regarding the various items that should be included in this national income. For instance, the service rendered by a mother or a housewife is very valuable and yields large satisfaction which can often be measured in money, but is excluded from the national income. The same service rendered by a housemaid is considered as income. Similarly, as Prof. Pigou says, houses and furniture enter into national income if put out on rent, but not if they are given as a free gift, even though the utility rendered by them is the same. There are some economists who believe that the services of public servants should be excluded from total national income. There are others who hold that income received without any service in return, such as old-age pensions, charities, interest on war loans, etc., should be excluded.

In this connection Mr. Colin Clark, one of the greatest British ethnological authorities, defines national income as follows :—

"The national income for any period consists of the money value of the goods and services becoming available for consumption during that period, reckoned at their current selling value, plus additions to capital reckoned at the prices actually paid for the new capital goods, minus depreciation and obsolescence of existing capital goods, and adding the net accretion of, or deducting the net drawings upon stocks, also reckoned at current prices. Services provided at non-profit-making basis by the State and local authorities (*e.g.*, defence and elementary education) are included in the total at cost price ; but where these services are 'sold' in the market (*e.g.*, postal services and municipal tramway services) they are included on the basis of the charges made. Where taxation is levied upon particular commodities and services, such as the customs and excise duties on commodities or the entertainment tax, such taxes are not included in the selling value ".[1]

According to Dr. V.K.R.V. Rao, an Indian authority, national income may be defined as " the money value of the flow of commodities and services, excluding imports, becoming available for sale (or capable of being sold) within the period, the value being reckoned at current prices, minus the sum of the following items (1) the money value of any diminution in stocks that may have taken place during the period ; (2) the money value of the flow of goods and services used up in the course of production , (3) the money value of the flow of goods and services used to maintain intact existing capital equipment (value being reckoned at current prices in all these cases) ; (4) receipts of the State from indirect taxation ; (5) favourable balance of trade including transactions in treasure ; (6) net increase in the country's foreign indebtedness or the net decrease in the holdings of balances and securities abroad whether by individuals or Government of the country".[1]

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[1] Colin Clark—The National Income, pp. 1-2.

2. The Utility of National Income Statistics. The economic welfare of any community can best be measured by its income. Of course, there are drawbacks. A community may have a large number of rich people or old people and may, therefore, have to spend disproportionately larger amounts of money on medicines and comforts Or, the peace of a community may, be constantly disturbed by dacoities and communal riots and it may have to incur large expenses on policing and security measures Thus such a community's income would not be conducive to much economic welfare. In spite of these drawbacks, however, we will have to admit that, "other things being equal, economic welfare is greater if national income is greater".[2]

National income figures give us an idea as to the standard of living that would be possible for a community. Of course, these figures are only an average and throw no light on the distribution of income in the country. It is quite possible that a few people may be having a major portion of the country's income and larger numbers may be left with only a smaller share.

National income figures are further useful when we want to find out whether a country is developing economically. If they do not measure accurately the progress made by a country they at least show us the trends. As the period of time required to measure the income of the people in a country is usually rather long, allowances should be made for the changes in prices and in the habits of the people. In this connection the chain method suggested by Marshall would be useful. Thus it would be misleading if we compare the national incomes of two different countries with different standards of living and try to make relative estimates of their economic welfare therefrom without making proper allowances for the differences.

India's poverty is a by-word. She is almost the last in the compass of nations when their material prosperity is compared.

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1. Dr. V. K R. V. Rao—National Income of British India.
2. Haberlerr—National Income, Saving and Investment, Vol. p.p. 140-41.

The standards of health are wretchedly low, nutrition insufficient, death-rates high, infant and maternity mortality rates abnormally excessive while standards of living are dreadfully low. In such circumstances, an analysis of national income figures for India is a matter of extreme urgency. Given correct data, the national Government of the country would be in a position to eradicate the defects of an inequitable distribution of income and to correct the faults of malnutrition brought about by insufficiency of food. They will also help the legislature in discovering the true taxable capacity of the people and imposing a burden suited to their capacity.

3. **Methods of Calculating the Material Income of a Country :** Three methods are usually advocated to calculate the income of a country.

(a) *The Income Method.* This is based on income-tax statistics. The income-tax figures are supplemented by taking the average earnings of various groups of labourers engaged in different occupations. Such a method will be more useful in a country where the number of income-tax-payers is large, but it can be of some use in India as well, when it is helped out by *ad hoc* inquiries into the incomes of labourers whose incomes are not liable to pay any income-tax.

(b) *The census of production method or the inventory method.* It takes into consideration the total goods and services consumed in a year at market prices This method needs an accurate census of production as well as a wage census. In India no complete census of production has ever been taken. The Government, however, publishes its own estimates of the production of principal agricultural commodities which means that the income of almost every two persons out of three has been taken into calculation. Complete statistics of the produce of mines and forests are also published. Besides, some figures about milk and milk products are available but it is a matter of regret that complete information regarding production in all directions is not collected.

(c) *A combination of the income and inventory methods.* The two methods have been combined by Dr. Rao with fair success in India. He has used the Government estimates of the production of agricultural crops, the tabulated figures of mineral and forest produce, the available data on milk and milk products and income-tax statistics as well as figures of incomes of junior Government servants and of those industrial workers in Bombay, Ahmedabad and elsewhere whose wages are published regularly in commercial papers. He has supplemented these by carrying out *ad hoc* inquiries in various other directions.

4. **Estimates of National Dividend in India.** A number of estimates have been made in the past from time to time to ascertain the national income of India. The earliest of such estimates was made by Dr. Dadabhai Naoroji relating to the years 1867-70.

All the various estimates of *per capita* income in British India before the partition are given in the table below :—

S. No.	*Name of Author.*	*Year for which estimate is made.*	*Income in* *Rs.*	*As.*	*P.*
1.	Dada Bhai Naoroji	1867 to 70	20	0	0
2.	Lord Cromer & Barbour	1882	27	0	0
3.	Digby	1898-99	17	8	5
4.	Lord Curzon	1900	30	0	0
5.	Digby	1901	18	8	11
6.	F. G. Atkinson	1875	30	8	0
	,, ,,	1895	39	8	0
7.	Wadia & Joshi	1913-14	44	5	6
8.	Shah & Khambata	1900 to 1914 (Pre-war)	36	0	0[1]
9.	,, ,,	War and post war years	38	0	0[1]
10.	Findlay Shirras.	1921	107	0	0
11.	,,	1922	116	0	0
12.	Simon Commission Report	1929	116	0	0
13.	Dr. Rao	1925-29	76	0	0
14.	,,	1931-32	Rural—51	0	0
			Urban—166	0	0
			Average—65 for India	0	0[2]
15.	Sir James Grigg	1937-38	56	0	0[3]
16.	"Student" in Commerce of 18/12/1943	1938 39	66	0	0
17.	,,	1942-43	142	0	0

It is obvious that there are big variations in the estimates of income arranged above. One of the reasons is that big changes have occurred in prices at different times. For instance Rs. 45 in 1913-14 would be equal to no less than Rs. 80 in 1921-22, if an allowance is made for the rise in prices. Besides, it should be noted that the area covered by different estimates is not always the same. In estimates the whole of British India has been included while in others the States have been excluded. An other important fact to note is the difference of treatment by different investigators due to their personal bias. One finds that the nationalists usually arrive at lower figures as compared with official estimates ; the viewpoint of the former is that British rule has brought no prosperity to India while the latter think differently. It is obvious that the earlier investigations were inspired by political prejudices and were either over-estimates or under-estimates. In addition, the different estimates did not always include the same items. The basis of calculation was almost always different Nor were the statistics, even when calculated by official authority, wholly correct. Often they were patchy and in some cases completely lacking. As Prof. A. L Bowley and Mr. D. H. Robertson, who were invited to India by the Government to advise them on the question of collecting statistics and about a Census of Production, pointed out, "Statistics in India are unco ordinated, though in some branches careful work is being done, and determined efforts made to improve the accuracy and scope of information, in others they are unnecessarily diffused, gravely inexact, incomplete or misleading; while in many important fields general information is almost completely absent. The situation cries out for overhaul under the control of a well-qualified statistician." Agricultural price statistics are diffused, birth and death rates are incomplete, and there is no general information about wages. It may be mentioned in the end that the later estimates are more scientific and more accurate and Dr. Rao's valuation is perhaps more reliable than any other. He has selected the year 1931-32 for his estimates, as in 1941-42 no occupational census was carried out for reasons of economy in war time. The 'income' and 'inventory' methods have been judicially mixed and supplemented by *ad hoc* inquiries. Dr. Rao's method of procedure as discussed below will pay careful study.

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[1] As adjusted by Dr. Rao according to the changes in level of prices.

[2] Dr. Rao allows a margin of error of ±6%.

[3] Budget speech, 1938.

Details of National Income of British India in 1931-32.

I. *'Inventory' Estimates* :	*In Millions of Rs.*	*Net*	*Margin of Error (Percentage)*
1. Agriculture output ...	6,089·2		
Fruits, condiments, pulses, etc. ...	1,746·9		—
	7,836·1		
Deduct Wastage, Seed, Interest, Maintenance and depreciation for cattle, repairs to implements, etc.	1,909	5927	
2. Livestock incl. milk, meat, hides, Bones, wool, etc. ...		2,683	+10
3. Fishing and hunting ...	120		±20
Minerals ...	180		Nil
Forest produce ...	92	392	Nil
II. Income Estimates :			
1. Incomes assessed to income-tax		2,161	Nil
2. Incomes not assessed to tax...			
i of workers in industry	2,100		
ii ,, in Government service, Railways, posts and telegraphs, etc.	590		
iii Of workers in other transport	283		
iv ,, ,, in trade	1,283		
v ,, ,, in professions and liberal arts ...	416		

vi Of Workers in domestic service.	325	4,947	±16
III. Miscellaneous :			
House Property ...	774		
Silk ..	12		
Pottery ...	60		
Honey ...	10		
Pensions ...	79		
Government Commercial undertakings ...	89		
Interest on Agricultural debt.	170		
Indirect Taxes	839		
Deduct	1855		
Revenue from indirect taxes	+839		
Interest on internal public debt	−160		
Excess of exports over imports, etc.	396		
	1075	780	±Nil
Rs.	16,890	million	±6

After arriving at the above figures, Dr. Rao thinks that the official estimates of agricultural output are over-estimated by 10 per cent and that there is an evasion of income-tax amounting to 5 per cent. Thus the net national dividend figure will be between Rs. 16,651 million and Rs. 18,6/7 million, thus giving us a *per capita* income of Rs. 65 with a margin of error of ±6 per cent.

Dr. Rao then proceeds to calculate the income of a person in rural and urban areas and says that corresponding to an income of Rs. 65 *per capita* for the whole of India, the *per capita* income in rural areas is Rs. 51 and urban areas, 166.

5. In its 1948 annual number, the ***Eastern Economist*** has made estimate of *per capita* income in the Indian Dominion. The estimates have been made on the basis of Dr. Rao's estimates for 1931-32. The *per capita* income for the Indian Dominion has been judged at Rs. 213 against Rs. 224 for Pakistan. The reason for a lower income in India is that the agricultural wealth of Pakistan is definitely greater than that of India due to the presence of large areas of canal irrigated lands in West Pakistan which grow immense quantities of wheat and cotton and jute-growing areas in East Pakistan which makes India dependent for 75 per cent of its requirements of jute from Pakistan.

Such estimates are not wholly reliable. The need for finding out the true national dividend and *per capita* income in India is, however, of such great importance that the Government of India have recently appointed an Expert Committee to carry out investigations in the matter and to submit a report on India's national dividend as early as possible.

6. Conclusion. We can easily conclude from the discussion above that the collection of statistics in India is very defective and in some directions completely absent and in the Indian States things are even worse. Collection of statistics on scientific bases is an urgent necessity. The Bowley-Robertson Report published in 1934 made certain recommendations for the collection of data through a permanent department at the Centre with the help of qualified economic staff. They suggested that there should be four members attached to the Governor-General's Council. Two of the members should be trained economists and the third would be the Director of Statistics. A census of production should be carried out quinquennially while the main census of population should continue to be decennial with a supplementary abbreviated census in the middle of the decade. The two census should synchronize as far as possible. Besides, each major province should have a whole-time statistical officer who should review all departmental statistics and co-operate in every way with the Central Director of Statistics. The authors of the report also suggested the method of calculating the national income of the country almost on the lines on which Dr. Rao later carried out his investigations.

Secondly, all the various estimates made by officials or non-officials, Indian or European, with all the variations, big or small, indicate that the Indian people are very poor. They are not only poor so far as the *per capita* income is concerned, but also from the point of view of goods consumed. The darkness of the picture becomes more accentuated when we see that India cannot produce sufficient food for herself in spite of the fact that she is primarily an agricultural country. According to Dr. Radha Kamal Mukerjee, India is deficient today in her food supply for 63 million people. According to Dr. Aykroyd the deficiency in vitamins is even greater. The Food Grain Policy Committee also remark that the standards of consumption prevailing in India are very low and the level cannot be cut any further. Housing conditions are awful in the industrial towns and extremely insanitary in the villages. The death-rate is high. The rates of infant and maternity mortality are much higher than those in the West. These wretched conditions are entirely the result of poor production both in agriculture and industry.

The conditions of wretchedness in India appear even more dreadful when we compare them with conditions in other countries. Mr. Colin Clark has put forward a formula for comparing the economic welfare of different countries. He has reduced the estimates of national incomes of a number of countries to the same price level and expressed them in the form of international units per head of the working population. He defines the international unit (I.U.) as "the amount of goods and services which one dollar would purchase in the U.S.A. over the average of period 1925-34." The following table gives the average real income per head in I.U.'s during this period in some countries :—

Country	I.U's	Country	I.U's
U.S.A.	1381	Japan	353
		Egypt	300-350
Great Britain	1069	U.S.S.R.	320
Australia	980	South Africa	276
France	684	British India	200
China	100-120		

It is possible that Mr. Colin Clark's estimates are defective to some extent but there can be no doubt that British India and China are at the bottom of the list. The National Government of India has a great leeway to cover and can do so only with the entire will of the nation at its back. Gaps can be filled and remedies found only if proper surveys are made and accurate statistics collected.

CHAPTER XXXVI

UNEMPLOYMENT, FULL EMPLOYMENT AND REFUGEE REHABILITATION

1. Nature of the Problem. To talk of the unemployment problem in the conditions created by the war looks a little odd During the war, and for some years following the war, there is all-prevailing scarcity. The price of everything, including that of labour, has gone up. The immense mass of humanity residing in India has been almost fully absorbed. The unemployed man is a rare phenomenon.

But these are abnormal conditions and cannot be expected to last for ever. Normally in India we find a vast mass of the unemployed floating hither and thither in search of jobs. We have no system of poor relief and no statistics of the unemployed persons. But statistical proof is hardly needed to prove what is so patent to everybody. There is, in India, in normal times a large scale unemployment or under-employment though this fact is concealed by the existence of the joint family system which looks after the aged, the infirm, the disabled and the unemployed men in the family. Besides, the charitable disposition of Indians and their misguided religious sentiments help to maintain in India a numerous class of beggars. Their unemployment may not be involuntary, yet they cannot be considered as gainfully employed.

Unemployment problem in India is a tremendous problem involving vast numbers ; it is also a complicated problem on account of the peculiar social and religious conditions prevailing in India. The march of the uprooted millions following the partition of the country has lent the problem of rehabilitation and employment a new urgency.

2. Types of Unemployment. The nature of Indian economy is vastly different from that of the European countries. Consequently the nature of unemployment here is not the same as elsewhere. In the highly industrialised countries unemployment affects the industrial worker mostly. But in India we have three main types of unemployment :

(*a*) Agricultural unemployment.

(*b*) Industrial unemployment.

(*c*) Unemployment among the educated classes.

We shall consider these three types of unemployment separately.

AGRICULTURAL UNEMPLOYMENT

3. Causes. The history of Indian agriculture is a chronicle of intermittent and progressive depression. Just as India has its depressed classes, she also has a depressed industry, *viz.*, agriculture. Being normally in a depressed state, Indian agriculture is unable to sustain the vast majority of the people who seek livelihood from the soil. From the evidence tendered before the Punjab Unemployment Committee (1937-38), we find that although there is no permanent unemployment among the agriculturists, there is fairly widespread seasonal or casual unemployment, and there is chronic under-employment. The following are some of the causes responsible for low efficiency of Indian agriculture :—

(1) *Increasing pressure on the soil.* The ever-increasing population of India is irresistibly drawn towards land in the absence of other handy and lucrative avenues of employments. Consequently about two-thirds of the Indian population depend on agriculture and allied occupations.

(2) *Seasonal nature of agricultural operations and lack of supplementary industries.* There is a state of enforced idleness in the rural areas of India for three to four months in a year. The period of the involuntary unemployment varies from tract to tract. In the well-irrigated tracts, the farmer is busy almost throughout the year. In the canal colonies, they are kept engaged in their vocation for nine or ten months in a year. But in *barani* areas, the farmers may have to remain idle for 5 to 7 months in a year. If our farmers had combined with agriculture some supplementary industries, like dairying, poultry, sericulture, bee-keeping, etc., they would have kept themselves profitably employed throughout. But that is not the case . Our farmers have no double string to their bow and they depend exclusively on farming.

(3) No extension of area under cultivation corresponding to increase in the farming population.

(4) No appreciable improvement in the farming technique.

(5) Inadequate or untimely rains or floods making agricultural operations impossible ; Indian agriculture is said to be a gamble in the rains.

(6) Chronic indebtedness and lack of capital.

(7) Uneconomic size of holdings.

(8) Subsistence nature of agricultural economy and its unplanned nature.

(9) Inefficient marketing.

The cumulative effect of all these causes is to reduce the standard of farming in India to an incredibly low level, so that it cannot provide employment to millions of Indians, who, by necessity or preference, are wedded to agriculture.

4. Consequences of agricultural unemployment. Considering that a vast majority of Indians depend on agriculture, agricultural unemployment must mean misery and hardship to millions in India. When a great majority of the people are hit hard others cannot escape injury. Depression in agriculture must produce depression in industry. Government finances will suffer which will lead to curtailment of governmental activity and enterprise. Agricultural unemployment, therefore, overflows to other fields of economic activity. Loss of purchasing power by about 90 p.c. living in the rural areas can be nothing short of a national disaster.

5. Remedies. Reconstruction of Indian agriculture seems to be absolutely essential if periodic and seasonal ebbs of unemployment have to be avoided. Its nature as subsistence farming must change Methods of cultivation must undergo a revolutionary change ; agricultural technique must be stepped up. Irrigation facilities must be improved so that Indian agriculture does not remain at the mercy of rains. The system of marketing must be rationalised. We must introduce crop planning. Areas under cultivation must be increased by means of lands reclamation schemes. Use of chemical manures, better seeds, better system of rotation, better sowing and better drainage are some of the other measures that can be adopted.

But the adoption of better methods of farming hinges on one important facter, *viz.*, the size of the holding. Unless the size of agricultural holdings is reasonably enlarged, there is no hope of modernising Indian agriculture. Mechanism can be effected only if there are large farms

Above all, agricultural unemployment can be effectively remedied if there is equalization of population pressure. There are too many people on land now. The surplus of the rural population must be weaned away from agriculture and must be absorbed in trade and industry. The Punjab Unemployment Committee in their report (1937-38, para 9) calculated that at least one third of the population subsisting on agriculture was for practical purposes unemployed. The conditions in other provinces cannot be much different.. General economic development of the country at a speed unknown hitherto is essential to lighten the pressure on the soil and to reduce the incidence of agricultural unemployment.

Fundamental organisational changes are also called for. In the absence of organisational changes other remedies may prove to be mere palliatives. We should introduce group farming. As S. Tarlok Sing puts it in his "*Poverty and Social Change*" 'without group control over the management of land it is not possible to create an organisational framework for bringing about a better agriculture, for assuring equality and freedom to suppressed groups, for integrating the moral and industrial economy; and finall, for creating new social values and incentives.

INDUSTRIAL UNEMPLOYMENT

6. **Extent of Industrial Unemployment.** Here again we are faced with a statistical blackout. We have no reliable figures to assess the incidence of industrial unemployment in our country.

For a long time our industries suffered from shortage of labour supply. Suitable labour to man the growing industries of India was not forthcoming. Neither the wage nor the living conditions in the cities were attractive enough to secure adequate labour supply. The Indian worker has been a *farmer* by preference and a mill-hand by necessity. The industrial workers were fugitives from the rural areas "to escape from destitution or social disabilities or from the panalties of law or from the severe penalties with which the village visits offences against its social and moral codes...Few industrial workers would remain in industry if they could secure food and clothing in the village ; they are pushed and not pulled to the city."[1] The industrialists thus experienced great scarcity of labour. Labour was migratory and not permanent. The worker would always wistfully look back at the village, and would leave for home at the earliest possible opportunity.

But the era of labour shortage is at an end. The conditions in the industrial centres may not have improved but the conditions in the rural areas have become worsened with the result that the labour market is now inundated by the runaways from rural areas. There is thus a large number of people seeking employment in industries. We cannot exactly say how many but the number is bound to be considerable.

7. **Why this Industrial Unemployment ?** Our industrial system is unable to absorb our growing population and for this there are several reasons : (*i*) Our industrial development is immature and inadequate. The expansion of industrial structure in India is not commensurate either with its vast resources or with the growth of its population.

(*ii*) The location of industries is very defective and uneconomic. There is overcrowding in certain centres which inevitably raises the cost of production. If the geographical distribution of industrial units had been rationally planned, industrial structure would have been more economical and its capacity to absorb workers would have infinitely increased.

(*iii*) The cost structure is very rigid and does not respond to changes in prices of the industrial goods. Consequently our industries are periodically overwhelmed by depression which brings about unemployment.

(*iv*) The subsistence economy prevalent in our rural areas pecludes the development of an adequate market for our industrial products.

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[1] Report of the Royal Commission on Labour, pp. 15-17.

The net result of the operation of these causes is to make our industrial system incapable of sustaining a heavy pressure of our increasing numbers, nor can it bring about an even distribution of employment pressures in the country. It cannot provide a stable labour market. "The Indian industrial system is dangerously poised between the Scylla of a fluid labour market and the Charybdis of a secondary market determined by the dynamics of the consumption-propensity of a population caught in the rigid framework of a subsistence economy."[1]

8. **The Remedy**. The remedy for industrial unemployment lies in stepping up industrial efficiency. Our industrial structure needs a thorough overhauling. Most of our industries need going through a process of rationalisation so that waste of all kinds is eliminated and industrial efficiency is raised to the highest possible pitch. Over-centralisation of industries will have to be rectified, the quality of the raw materials improved, technical training imparted to labour, capital resources mobilised, managerial skill improved and industrial organisation generally galvanised.

Apart from removing the shortcomings of the existing industrial structure, it will be necessary to launch far-reaching schemes of industrial development, something like that envisaged in the Bombay Plan. Shri G D. Birla has put forward a five-year development scheme which is quite commendable. We must really do something big in the matter of industrial development. We have got the resources. A number of plans are before the country. What is now needed is something practical, that is, an effective execution of any rational plan. India has not the freedom to shape her destiny. We have now to show if we have got the capacity to make a good use of that freedom.

The fact can hardly be over-emphasised that it is to industry alone that we can look forward to absorb the rising surge of the unemployed. Agriculture is already overcrowded, and so are the liberal professions. Development of industry is our solitary hope to relieve us from the miseries of unemployment. When our industry rises to its full stature, the stature to which it has every right to rise, unemployment will vanish. India has better chances of solving this problem of unemployment through the development of industries than many advanced countries. Our industrial structure is yet in a state of infancy and there is a great scope for further expansion. Industrial system built up carefully as a co-ordinated and integral part of the general economic development of the country cannot fail to maintain an amazingly high level of employment. Industrial backwardness is the one cause of the scourge of unemployment in India. We can remove it.

UNEMPLOYMENT AMONG THE EDUCATED CLASSES

9. **A Serious Problem**. The problem of the educated unemployed constitutes a very serious and menacing problem. The

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[1] Ramaswami, T. N.—Full Employment for India, 1946, p. 115.

educated unemployed is a dangerous person. He is vocal; he has influence; he nurses a sense of personal injury and, if the grievance is long continued and the numbers involved are large, as in India, to the situation is decidedly explosive, and will be a constant threat the security and stability of the State. The unemployed persons belonging to this category are not 'dumb, driven cattle' but intelligent people, and will not accept an unenviable position lying down.

The problem is serious in another way. If educated people have to remain idle, then the scheme of things responsible for such a state of affairs deserves strong condemnation. It involves the waste of the best of our human resources. It means a great national loss that such valuable human capital should stand idle.

10. Why are the Educated People Unemployed? The existence of unemployment among the educated classes is attributed to the too literary character of education. The system of education prevalent in India is divorced from real life. There is a mass production of graduates for the absorption of which no adequate demand exists. Our education takes a young man straight to M. A. after which, if one does not get a clerical or a teacher's job, one is doomed. There are very few alternative openings which can hold out prospects of a respectable living for young men who maintain a high standard during their academic careers.

Our system of education has elicited sharp comments. One witness stated before the Punjab Unemployment Committee in 1927 that Lord Macaulay's system of education "was meant to create a class of translators to serve purely as interpreters. Education has let these interpreters remain as interpreters and nothing more, with the addition that anything real is gone and the rest is all imitation and chaff where there is no place for anything conducive to make a human being of an Indian." Sir George Anderson, the President of the Punjab Unemployment Committee of 1927, himself admitted that the present system of education in its very inception was moulded with the special object of preparing boys for external examinations and of training them for clerical vocations, and he described the matriculate product of the system as a "derelict, a wanderer on the face of the earth, unemployed because he is unemployable." It has been said that 'the present education turns out no better stuff than indifferent *babus*.' A diploma is regarded as a 'magic passport to government service

Mr. Armstrong, one-time Director of Public Instruction, Puujab, however, put in a spirited defence of the education system before the Punjab Unemployment Committee of 1937. He said: "There can be no question that our literary form of education has in the past helped its pupils to secure a wide range of employment. In the West where the system of education is highly organised and provides all possible types, unemployment is rife and is a problem the solution of which is not looked for in any reform of the educational system prevalent there but is tackled from the point of view of economic development and the consequent provision of work. Merely to alter the educational qualifications of the unemployed without decreasing their number is no solution of the problem, and to give our youths technical and vocational education without ensuring that industry and agriculture can absorb them, when they finish their training, is merely to have one type of unemployment instead of another"

There is a great deal of truth in what Mr. Armstrong says. Mere change in the system of education is not enough ; it must be accompanied by schemes of economic development so that jobs are ready when technical hands come out of the vocational institutions, otherwise we shall have instead of B. A. unemployed, the unemployed engineers and other technicians. Such a situation has always existed in India. We have always had a number of technically trained people among the unemployed.

With all this we must say that the system of education is defective. It is not calculated to equip a person for the struggle of life. The medium of instruction, which is a foreign language, means a tremendous strain on the immature youths and is sure to retard mental development. There are no two opinions about the defective nature of our educational system. Presiding at the All-India National Educational Conference held at Wardha in October, 1936, Mahatma Gandhi observed : "The present system of education does not meet the requirements of the country in any shape or form. English, having been made the medium of instruction in all the higher branches of learning, has created a permanent bar between the highly educated few and the uneducated many. It has prevented knowledge from percolating to the masses. The excessive importance given to English has cast upon the educated class a burden which has maimed them mentally for life and made them strangers in their own land." Again, "absence of vacational training has made the educated class almost unfit for productive work and harmed them physically." Now that India is free, we can soon expect a drive towards educational reconstruction.

11. Extent of Unemployment Among Educated Classes. It is impossible to ascertain the exact number of the unemployed persons among educated classes. Various provinces appointed committees to examine the problem of the unemployed and these committees did estimate the number of such people. But owing to varying definitions of the term educated as well as the inherent difficulties in making an estimate, most of the figures are mere guess work. But the absence of reliable statistics does not indicate the absence of unemployment. On the contrary, the fact is well known that a large number of educated persons have not been able to secure employment.

The Punjab Unemployment Committee of 1937 estimated the number of educated persons out of employment in the undivided

Punjab at 150,000. Thousands of persons passing out of the portals of the university swell the ranks of the unemployed from year to year. The evil is cumulative.

It is a common experience of all departments that hundreds of applicants scramble for a petty job in an office. From the report of the above committee we find that "in a certain district for 25 posts of Patwaris, there were nearly 700 applicants—90 p c. of them being matriculates and not a few being M.A.'s and double graduates." The Chief Secretary to the Punjab Government stated before the Committee : "As many as three hundred applications are received annually for approximately 25 clerical vacancies. The majority of these applications is from graduates and undergraduates." Of the 878 educated unemployed who submitted a memorial to the Committee, 843 had received a purely literary education, 19 were law graduates, mechanical and civil engineers, etc., and 15 were professionally trained persons. An advertisement inserted in the 'wanted' columns of a newspaper is sure to bring forth a fabulously large number of applications. There is a sure index of very widespread unemployment. Malik Arjan Das, who was associated with the *Tribune*, says : " I remember that in reply to an advertisement inviting applications for the post of a head constable of police in Africa, the number of applications received was so large that the advertiser after three or four days totally refused to come and receive his dak and I had to send the hundreds of letters not taken delivery of by him personally to his house." There is thus not the least doubt that normally in India thousands of educated persons fail to secure a suitable job.

12. What is the Remedy ? The obvious remedy is the reform of the system of education. Educational facilities should be more diversified, so that the education imparted to our youths is not literary. Institutions for technical and vocational training should be multiplied, so that our young men are enabled to learn a craft and to start a cottage industry on a small scale on their own account. This would obviate the need of seeking a job with some employer.

But economic development must proceed *pari passu* with educational reform. It is necessary to create jobs and not merely enough to fit people for the jobs. ✓Only economic and industrial development of the country can multiply the jobs available for the people. The real remedy, therefore, is the fullest exploitation of the resources of the country and carrying through a comprehensive development plan so that opportunities of employment may be multiplied.

13. Conclusion. There is in India, undoubtedly, widespread unemployment among all classes in normal times A great deal of disguised or concealed unemployment or under-employment exists in India. There is unemployment among the educated classes, the uneducated masses, among the industrial workers and also among the agriculturists. Specific remedial measures to ameliorate the conditions of the unemployed in each category have to be adopted.

But the cause which lies at the bottom of all types of unemployment is the economic backwardness of the country. The number of potential workers of all types is very much greater than the volume of available employment. This is due to the fact that the productive resources of the country have not been fully and properly exploited. The resources of India lie unutilised or imperfectly utilised. This being the case, the only remedy is to accelerate economic development and make it commensurate both with the resources as well as the growing population of the country. Growth of population without a corresponding development of the country's resources furnishes a real explanation of the existence of unemployment.

Unemployment is not an act of God, as the Indian masses given to fatalistic thinking are prone to imagine. Unemployment is not a natural calamity but the consequences of defective human organisation. It arises from the incapacity of the economic system to adjust itself to changing conditions, say, increase in population. The country with a large incidence of unemployment is caught in a vicious circle : Existence of unemployment means a reduced purchasing power. It means demand for goods and services is not sufficient to put all the resources of the community to use. Reduction in demand leads to the curtailment of productive activity. Curtailment of productive activity leads to unemployment and unemployment in its turn again leads to reduction in demand. If consumption and production are properly balanced, there cannot be unemployment. In primitive society where there is no exchange or distribution, production and consumption go hand in hand and unmployment is unthinkable. Let us therefore plan our economic system in such a manner that productive capacity and consumption propensity are in equilibrium.

The Punjab Unemployment Committee of 1937 thus sums up the unemployment problem[1] : "The unbalanced nature of our economy is the primary cause of unemployment. General depression for us means an agrarian crisis. The fall in prices of agricultural produce has severely curtailed the purchasing power of the peasant. This, in turn, has retarded economic development in many spheres. It has affected public services, industry, trade and professions in varying degrees. Most of the income of the Government is derived from land. Reduced revenues mean reduction in personnel of services and less expenditure on beneficent activities. Ruduction in the purchasing power of the major portion of consumers has acted as a brake on industry and trade. For the same reason professional incomes have gone down. Retrenchment in services and staff, reduction in private offices, mills, factories, etc. have

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1. Report of the Punjab Unemployment Committee, 1937-38, p. 9.

reduced avenues of employment not only for educated persons but for artisans, both skilled and unskilled. There is no single cause of unemployment. The malady is the cumulative result of a number of causes. But the problem viewed as a whole comes to this : the number of potential workers is very much greater than the total volume of available employment and the disproportion is increasing at an alarming pace. If this process is not checked betimes, it will endanger the social and economic structure of society. The prospect is one which no Government can afford to view with equanimity."

But, as we said at the outset, such alarming conclusion may sound a little old just now. Unemployment may, as the present moment of feverish economic activity, seem a far cry. Yet when the war fever has cooled down, India may really be faced with economic stagnation, unless in the meantime steps have been taken to accelerate economic development. Unemployment is a great curse. Apart from material waste it involves, it brings about demoralisation. It has to be avoided, to use the words of Beveridge, for 'not the want it may bring but hatred and fear which it breeds.'

14. Full Employment. To try to combat unemployment is a negative policy. We must do something positive. We must build up such an economic system that every able-bodied person is guaranteed a job by the State.

In recent years, a vigorous campaign has been carried on in various countries in favour of full employment programme. Contributions by Beveridge, Pigou, Roosevelt and Senator Murray in the formulation of such programmes are well known. According to Pigou full employment means that all able-bodied people are employed, if they desire, to work at the prevailing rate of wages. To ensure full employment the State must see that at no time is the number of jobs less than the number of the unemployed persons.

Full employment can be maintained in the following ways :—

(*a*) The demand for labour should always be kept ahead of the supply of labour.

(*b*) The demand for labour should be properly directed; and

(*c*) Both demand and supply of labour should be so organised that changes in the demand for labour synchronise over a not too distant period with changes in the supply of it and *vice versa*.

There may still be a fractional unemployment during the period of adjustment.

State control will be essential in the economic sphere to provide employment for all. Mobility of labour will have to be controlled through Employment Exchanges ; location of industry will have to be controlled so that the available supply of labour can be properly distributed. Above all, the total expenditure, both public and private, must be kept at such a figure that the demand for goods and services is so great that it can be met only if the entire manpower of the community is employed.

15. Is Full Employment Programme Feasible in India? India contains one-fifth of the human race within its boundaries. To attempt to provide jobs for such a large mass of humanity is too stupendous a task. Some would say it is fantastic and only those who have taken leave of their senses can advocate a full employment programme for the sub-Continent of India.

The idea may look fantastic. But it need not be so. If the numbers for which we have to find jobs are vast, so are our resources. We have not yet started making a full use of our resources. We have, for example, hardly developed 6 p.c. of our hydro-electric resources. There is nothing fixed about resources. The more they are used, the more they will increase. Improvement in technique places increased resources at the disposal of the community.

During the war there was practically full employment. Why cannot we maintain that state of economic activity? If something can be achieved under the stress of war, there is no reason why we cannot retain it during peace. We should now think that we have to fight another enemy, the four giants "Want, Disease, Ignorance and Squalor."[1] Only let us keep up the fight. The aim of this fight is much more commendable. It is the amelioration of the down-trodden mass of humanity. Public expenditure, Central and provincial, amounted to Rs. 171 crores in 1938 39, but it rose to the giddy height of Rs 1,198 crores in 1945-46. Who could think of such a phenomenal increase in our public expenditure before the war? The advocates of sound finance would shudder at the very idea. The fact is that finance is a mere camp-follower of economic and political policies It has now been demonstrated that what is physically possible is financially possible too. Finance has been definitely subordinated to the achievement of an economic goal, *viz.*, full employment, and which aim could be more laudable.

To maintain full employment employing people even on useless jobs has been advocated. Sir William Beveridge thinks it is even 'better to employ people on digging holes and filling them up again, than not to employ them at all, those who are taken into useless employment will by what they earn and spend, give useful employment to others. But there is tremendous amount of work that is awaiting to be accomplished in India in almost every sphere of our life *e.g.*, public health, education, housing, transport, irrigation, electrification, modernization of agriculture and industry, etc. Each of these can be developed to such an extent as to provide employment for the requisite number of men. Even the Bombay Plan which visualized the doubling of agricultural production and increasing industrial production fivefold was calculated to absorb millions of idle persons. The framers of the Bombay Plan admitted that without providing full employment the establishment of a decent standard of living would remain a pious hope.

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[1] Beveridge—Full Employment in a Free Society, 1944, p. 31.

Even when a full employment programme is in operation, there may still be a certain amount of unemployment due to seasonal nature of certain industries or fluctuations in demand, or technological changes, or due to some inherent defects in the programme. But these gaps can easily be filled up by properly regulating the Government public works programme. The Government will so regulate its own economic activity as to remove the deficiencies of the full employment policy.

It must be admitted that the operation of the full employment policy will involve extension and strengthening of economic controls. There will be a stringent regimentation of all economic activity. The economic system will have to acquire a higher degree of economic mobility. There shall have to be control over prices, regulation of private investment, control over location of industry and over labour market, control over foreign trade, control over consumption as well as over-production. A properly co-ordinated and synchronised programme of public expenditure will have to be put through. But is there anything inherently impossible in all this ?

True, there are difficulties, and some of them formidable indeed. Ours is a poor country and we lack administrative experience necessary to push through such schemes. We have hardly taken the first steps in social insurance. Social security and full employment are yet a far cry. We have been thinking so far of giving limited benefits (medical and workmen's compensation, etc.) to certain groups of workers. Sickness insurance scheme formulated by B P. Adarkar, involving an expenditure of Rs. 2½ crores, covers only 12 lakhs of workers in three major industries, *viz.*, textile, engineering, and minerals. There is no provision of old-age pensions or employment insurance. Ours is yet only a limited vision. We shall have to think of infinitely bigger things. But there is no reason why we cannot do it. Ours is a poor country, some would say and we cannot afford such luxuries. But this only means that full employment in our case will be established at a lower income level. The programme of full employment is certainly feasible in India.

16. Some Aspects of Full Employment Programme for India.[1] A full employment programme for India must embrace almost all important aspects of Indian economic life. It must touch international aspects of Indian economy, reconstruction of

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[1] For a full study see Ramaswamy, T. N.—Full Employment in India, 1946.

Indian agriculture and industry, co-ordination and expansion of transport, regulation of money market and foreign trade, reorientation of public finance, etc. We shall say a word about each of these aspects.

The world today has become one economic unit. No country can stand apart and isolated. The last Great Depression and the Global War have demonstrated the inter-dependence of the various countries of the world. The economic solidarity and stability of the industrialised countries of Europe is closely interwoven with the economic prosperity and stability of the agricultural regions of Asia. As Sir William Beveridge puts it, "The new signpost points clearly to the need for joint action by many nations to bring order into the production and marketing of primary commodities."

International movements of capital will be necessary for implementation of any integrated plan of economic development of an economically backward country like India. Capital and capital goods will have to come from abroad. It will be necessary for us to establish multilateral economic and financial relations with other countries. Structure of our foreign trade will be affected which in its turn must affect internal economy.

If India is to realize her economic destiny and occupy its due place in the comity of world Powers, she must raise an economic structure which will not only sustain the employment pressure of its growing population but also assist other nations in the realisation of their full employment aims. "She must integrate the dynamics of her future economic evolution with the progress ratios of a world which is waking to an urgent utilisation of the global resources, natural as well as human.

Our agricultural system is characterised by subsistence economy. This has to change if we are to create full employment income structures and standards of living. This will necessitate heavy inter-occupational movements of labour. This movement has to be properly organised, for according to Sir William Beveridge the essential feature of full employment policy is "not mobility of labour, but organised mobility."

At present our ever-increasing population is intensifying the pressure of population on land and is constantly threatening even the already poor standard of living in the rural areas. There is forced idleness for a number of months in the year among the agricultural population. Burden of indebtedness is keeping the peasant down. These handicaps must be removed. Productivity per acre must be considerably enhanced to equalise employment pressures. Agricultural production will have to be properly planned In short, there must be a radical reconstruction of our rural economy and it must be integrated with urban or industrial economy to fit in with the implementation of full employment programme to absorb 'not only the population emerging into employable age-groups but also other factors of production.[1]

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[1] Ibid., p. 51.

The present Indian industrial structure suffers from certain technical and economic rigidities and is incompetent to sustain the full employment programme. It is not strong enough 'even to stabilise the contemporary rickety labour market in the urban areas'. The Industrial system of a full employment pattern will have to be a co-ordinated part of the general economic development of the country.

The following programme of industrial reconstruction has been put forward[1] : (*a*) more economic localisation of the industrial structure ; (*b*) decentralisation and diversification of industrial units ; (c) controlled industrial location calculated to stabilise labour markets of the country ; (*d*) co-ordination of industrial evolution with the general economic evolution in the region ; (*e*) controlled evolution of regional markets for industrial products ; (*f*) management of wages fluctuations to maintain full employment standards of living ; (*g*) controlled regulation of inter-regional movement of industrial products ; (*h*) controlled evolution of the industrial structure with regard to technical progress in the processes of manufacture ; (*i*) regulated reconstruction of the special industries of the region ; (*j*) regulation of inter-occupational as well as inter-regional mobility of labour ; (*k*) regulation of investment in regional industry ; and (*l*) regulation of 'consumption' of industrial products by speculators and monopolists. Nothing short of a comprehensive programme of reconstruction of Indian industry can support a full employment programme. The aim of industrialisation is not merely to raise the standard of living but also to improve the cultural standard of our people. The drive and energy of the technical engineer will have to be matched by that of the social engineer.

As for our transport system it is haphazard, unplanned and inadequate. Such a transport system is a great bar to agricultural prosperity, industrial progress and the general economic evolution of the country. For the implementation of full employment programme, a co-ordinated system of transport is indispensable. The transport bottleneck, therefore, will have to be removed, if economic regeneration of this sub-Continent has to be brought about.

A programme of general economic stabilisation must evolve a regulated inter-regional movement of goods, an organised inter-regional and inter-occupational mobility of labour and regulated production of goods, industrial and agricultural, as well as regulated consumption of producer and consumer goods. In all this transport system has to play an important role.

When the full employment pattern of society has been established, the transport system must protect it and prevent it from disintegrating. It must prevent abnormal economic fluctuations which might unsettle the economic structure providing ful employment. From this point of view the following adjustments will be necessary in the transport system[1]: (*a*) The transport system will have to be decentralised and regionalised with the minimum of contact with the transport system which would have to concern itself only with the traffic essential to maintain inter-regional and international economic relationships; (*b*) the transport system must be elevated to the pedestal of a public utility service and outlay on transport should be in the nature of communal outlay. This principle should cover the road transport too; (*c*) effective co-ordination among different transport systems like railways, automobile and water transport to eliminate any competition among them; (*d*) nationalisation of the transport systems to reduce any competition either in routing or in freight, and to maintain an integrated pattern of investment structure to implement full employment schemes of stabilisation—regional as well as national; (*e*) regionalised regulation of traffic—goods as well as labour—to maintain the requisite pattern of price formations in agriculture and industry; (*f*) adequate re-adjustments of 'expense ratios' in transport services to the exigencies of the reconstituted volume and velocity of traffic.

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[1] Ibid. pp. 143-44.

The transport system must be highly flexible so that it can effectively cope with abnormal traffic arising out of the implementation of the full employment programme. For this purpose reliance cannot be had on railways alone. A co-ordinated and elaborate system of road transport will be essential. The transport system, in short, must form an integral part of the general economic stabilisation programme.

A properly regulated money market is also an essential part of the full employment programme. A full employment pattern of economic structure must eliminate cyclical fluctuations in trade and industry. Frequent occurrences of booms and depressions are sure to de-stabilise the new economic system which is calculated to maintain full employment income structure. Stabilisation of the price level is very essential. In the new dispensation, therefore, it will be necessary to regulate the deposit-creating capacity of the banking institutions and to control the forces influencing the purchasing power of the community.

The Indian money market lacks the necessary flexibility. Its various constituents are split up into several water-tight compartments so that they do not constitute one organic whole. It has been remarked that "the development of banking in India has been 'atomistic' rather than organic'." They are incapable of concerted action.

Certain adjustments will be essential in the structure of the Indian money market to fit it in the general pattern of full employment economic system. For a big country like India one central Bank cannot adequately meet the financial needs of the various regions. A certain amount of decentralisation of central banking, establishment of small independent banking units, regulation of banking functions in the country and control of the foreign exchange operations are some of the necessary adjustments in the Indian money market to enable it to sustain the full employment pressure.

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[1] Ibid., p. 198.

Foreign trade of a country cannot remain unaffected if a country launches a full employment programme. As Sir William Beveridge puts it, "International trade has fundamentally different aspects for a country with full employment". Reorientation of our foreign trade policy will be essential to make our full employment policy a success. It has been suggested that India will have to go through three phases of adjustments so far as her foreign trade is concerned[1] : (*a*) Bilateralism to secure the maximum advantages of international capital movements to finance and implement her enormous programmes of economic development ; (*d*) "bloc multilateralism" within the British Commonwealth of Nations to strengthen her structure of external economic relations and preserve her internal programmes of full employment from being contaminated by world forces of economic evolution ; (*c*) participation in global multilateral trading as an integral unit of an 'Imperial Sterling Bloc' to preserve the stability of her economic system from the depredations of the instabilities of other currency blocs till the world effectively implements the evolution of an international currency devoid of the vested economic and financial interests of the Great Powers which today control the institutions of the United Nations Organisation. The foreign trade must be complementary rather than competitive.

17. Role of the State in full Employment. In the early 'thirties the world witnessed the paradox of poverty in the midst of plenty, a spectacle of over-production on the one hand and starving humanity on the other. These chaotic conditions were created by the maladjustment between production and consumption and the divergence between the rate of capital creation and the pace of investment. Technological progress seemed to have outrun the consumption propensity of the people. "The only escape from the sinister spiral of economic 'progress' where technical progress incessantly creates enormous divergence between investment opportunity and capital creation and distorts the composition of consumption propensity of the population leading to the mad stampede for resources and markets.........lies in a comprehensive co-ordination of all economic forces." What is needed is the "synthesisation of the dynamics of investment into a co-ordinated pattern of economic development to liquidate the 'paradox of plenty' and adequately implement the full employment of man-power and material resources without jeopardising the main springs of technical advance."

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[1] Ibid., p. 262.

Now who can bring about this 'comprehensive co-ordination' or synthesisation ? We can only look to the Government to do it. A system of extensive economic controls will have to be built up, a system which can be efficiently administered not the like of one which we have witnessed during the war and post-war years. Unplanned and unintegrated economic development has created a large volume of undisguised unemployment. When far-reaching agrarian reconstruction has to be effected, when evils of unplanned industrial evolution have to be eliminated and co-ordinated industrial development to be brought about, when the transport system needs overhauling and when trade, internal and external, has to be canalised, State regulation becomes inevitable. Full employment policy cannot be executed without radical reconstruction of the entire economy of the country. Economic administration of this order can only be efficiently carried out by the government machinery. A suitable State machinery for creating full employment pattern of economic society will have to be devised and perfected.

It will be necessary to set up self-sufficient economic zones. Inter-zonal economic relations of complementary nature will have to be fostered. All this would mean enormous structural changes in our economic system necessitating corresponding changes in the administrative machinery of the government.

To carry out all-comprehensive economic policy for the Indian sub-Continent a Supreme Economic Council of economic experts will have to be created. The Supreme Council will have to be clothed with executive powers effectively to coordinate the various economic programmes. It should have the powers of superintendence, direction and control of the economic system. For this purpose it should be free to create suitable subordinate instruments of economic policy. To prevent any friction and to convert it into a suitable spring of the necessary authority, the members of the Dominion Cabinet should have seats on it ex-officio. In that case it will be easy to carry out its decisions promptly. The Supreme Council is to be a sort of 'Brain Trust.' In order to make it an embodiment of mature wisdom and experience of various aspects of economic life in the country, experts, both official and non-official, in banking, transport, agriculture, trade and industry must be given due place on the council. For each of these branches of economic development separate boards may be associated with Supreme Council *e. g.*, Board of Transport, Board of Industry, Board of Price Co-ordination, etc.

The main functions of the Supreme Economic Council should be the co-ordination of inter-regional trade, transport, movements of labour, prices, distribution of power resources between the regions, etc. For each region or zone there should be set up Zonal or Regional Economic Councils on the lines of the Supreme Economic Council, having associated with it a separate Board for each branch of economic development. The present provinces may have to be split up into smaller and convenient Economic Zones. These zonal councils will have the important function to develop the resources of the Zone, human and material, to the limit necessarry to maintain the full employment economic structure and to interweave various aspects of economic evolution in the zone as an integrated whole.

In short, the Government will have to undertake the responsibility of maintaining an economic system in the country which will provide full employment. For this purpose it must come forward with its own public works programme so that any deficiency of private enterprise is made up. In other words, it will be the responsibility of the Government to maintain that level of total outlay which ensures jobs for all those who seek them. Only the Government can command the resources and exercise the requisite authority to translate into practice any full employment programme that may be conceived for India. A full employment policy in India must aim at 'preserving a progressive balance between economic development and the volume of population to maintain a progressive standard of living' and must protect 'the economic system from the impact of economic instabilities which may originate abroad'. This is not an easy task and all the resources of the Government will have to be mobilised to accomplish it. A complete transformation of Central and provincial budgets may be expected when the full employment programme is launched and executed. Thus the Government role will be an all-important role in providing and maintaining full employment in India.

REHABILITATION OF THE REFUGEES

18. The Great Tragedy. Other countries win freedom after shedding blood ; we shed blood after getting freedom. A tragic drama, unprecedented in the annals of human race was enacted on the Indian soil on the occasion of the birth of Free India. There was anarchy in the Punjab. The knifeman, the bomb-thrower, the fire raiser and the free-booters were abroad, and carried on their nefarious tasks unhampered. Man had gone mad ; the ugliest side of human nature manifested itself in all its nakedness Acts of bestiality we committed on an unheard of scale and it could well be said that these men were so many beasts in human form. This was even doing injustice to the beasts. The beasts are infinitely better than such men. Millions of people, who had lived for centuries together as neighbours in peace and who had no personal enmity one with the other, were suddenly uprooted. They were driven out of their homes and hearths and they had to leave behind all they had. They considered themselves lucky if the family came out intact without some of them being butchered and the womenfolk abducted. They arrived in the country of their destination, "in a wretched condition, starving, ill-stripped of all they had, nearly all of them mourning the loss of near relatives, a veritable human wreckage, pouring in like a torrent and in complete disorder."

19. **The Stupendous Problem.** The 'march of millions' in these tragic circumstances has created a problem which has never faced any government so far in human history. It is so stupendous that even the wisest group of statesmen and the most experienced and able administrators may well be baffled. "The problems created by the transfer of five million people from Pakistan to India", says Dr. L. C. Jain, "and of a similar number from India to Pakistan under violent pressure and in complete defiance of all economic motives are so stupendous, and their ramifications so bewildering, that no one can fathom the depth of their effect. It is like having to resettle and rehabilitate the whole of the present population o Australia suddenly uprooted from the soil and deprived of all means of production, in a communally torn and economically disrupted country like the India of today."[1]

The refugee problem is towfold : (1) To find sanctuary for the unfortunate and uprooted non-Muslims coming from Pakistan ; and (2) to resettle and rehabilitate them in gainful occupations. Let us consider these two sides of the problem.

20. **The Relief of the Refugees.** The immediate problem was to evacuate safely millions of Hindus and Sikhs stranded in Pakistan and surrounded by enemies, as it were, on all sides and in an imminent danger of being looted, butchered and their women being abducted. The Military Evacuation Organization set up by the Government of India did a splendid job in this connection and train-loads and truck-loads of human packages were unloaded in various parts of the Indian Union especially in East Punjab. At the same time big foot convoys, sometimes more than one lakh strong, trudged along the roads under the scorching heat of Indian summer, hungry and thirsty carrying their babies and valuables. .

As soon as they crossed the border and heaved a sigh of relief, the problem was to provide them food and shelter. A number of transit camps and refugee camps were opened. The infant Government of East Punjab was stunned by the suddenness with which the refugees came and the immense numbers of them. The Government of India came to their rescue. At first there was uncertainty, inaction and helplessness all around. But gradually the Government recovered a bit from this sudden and heavy blow, and the relief organisation began taking shape. Well organised refugee camps were established in all provinces. The total number of the West Pakistan refugees in about 100 camps up to June, 1949, in the provinces and Centrally administered areas has been officially estimated at 6·5 lakhs and the number in States has been roughly put at 1,10,000. In addition, there are about 50,000 refugees from East Pakistan now (June, 1949) in camps in West Bengal.

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[1] L. C. Jain—Some Thoughts on the Problems of Rehabilitation of Displaced Persons from Pakistan.

The present writers have the first-hand experience of running some of these camps. We cannot say that the relief organisation was able to do all that could be done or that we were satisfied with the management of the camps, far less was the satisfaction of the refugees. The bare human needs of the refugees are so great that the Government resources in men and money, simply cannot satisfy them. In the very nature of things it is impossible. If the refugees complained and grumbled, it was only to be expected. But on the whole, the refugees showed remarkable patience and fortitude. They were prepared to put up with all inconveniences.

The relief administered, considering the circumstances, was reasonably satisfactory. Some of the camps were models of sanitation. They were well laid out in the vast open grounds outside the cities. Facilities for education, recreation and medical aid were provided. Rations including flour, dal, ghee, salt, vegetables, spices and fruit for the sick and the children and also oil and soap were regularly supplied. Quilts, blankets, great coats, jerseys, cotton stuffed bundies, and cloth for shirts, pyjamas, turbans, salwars and dupattas were also supplied. The Government supplies were supplemented by private charitable institutions and organisations. The supplies were inadequate at first. Either the things were not ready or machinery for distribution was not ready, or there was the transport bottleneck. But after a few months the relief machinery was in full swing and the supplies of these necessaries poured along. They were distributed on an adequate scale. The success and the efficiency of these camps can be judged from the fact that the incidence of death and disease was surprisingly low and much lower than the average of the settled populations. Few died of cold and starvation.

That there are complaints of corruption, cannot be denied. Corruption has become part and parcel of our life. So long as the camps were under the management of the Education Department, corruption was reduced to the minimum. If public spirited persons, endowed with the missionary zeal, were associated with the relief work, perhaps chances of corruption might have been minimised. But we cannot help saying that the scale at which relief was administered speaks of the large-heartedness of the Government. It seems that they are not all counting the cost of bringing solace to the unfortunate victims of a regrettable political decision.

✓ The Government of India has spent Rs. 29 crores on the refugees up to 30th April, 1949, in the matter of evacuation, reception, relief and rehabilitation. In the budget for 1949-50, a provision of Rs. 38 crores and 25 lakhs has been made for the rehabilitation of the refugees. The Provincial Governments, too, have spent several crores of rupees in this connection.

It has now been decided to stop doles to the rufugees in camps from 31st October, 1949, and the provincial and State Governments have been asked to arrange for a systematic dispersal of the refugees.

21. The Rehabilitation Problem. To feed the refugees, to provide them shelter, clothing, etc, is no solution of the problem. It will unduly stretch the slender resources of the Government and it will demoralise the refugees They will continue nursing the grievances and by narrating their oft-repeated blood-curdling tales of woe prevent the wounds from healing. The nation will be deprived of the contribution that these hardy, intelligent and resourceful people can make to our economic life. 'It is a part of the grim tragedy of refugee problem that such sturdy stalwarts as we often come across in East Punjab refugee camps, for the most part skilled and enterprising, should find the doors of productive toil barred to them at the very inauguration of their country's liberation, and be condemned to an existence in camps, while the world clamours for labour and their own country's resources lie untapped. They sit in camps workless, a drain on the slender resources of their new born province (East Punjab), waiting—for what ? One feels they do not know ; they just wait.[1]' This period of suspense, inaction and mental worry must be put an end to as soon as possible. A blitz tempo is needed to bring about the final absorption of the refugees in our economic life if a further upheaval and national disaster is to be avoided. Human misery is indivisible and unless the refugees are quickly rehabilitated, they are bound to spread misery all around. "Rehabilitation is not merely re-settlement ; it is a fundamental process of readjustment indicating that reasonable means of living have been found and the refugee is fitting as an organic unit into a new environment.

Dr. L. C. Jain, who was at one time Economic Adviser to the Ministry of Relief and Rehabilitation, prepared a comprehensive scheme of resettlement of refugees. If the scheme were faithfully carried out, the problem would have been successfully tackled. If rehabilitation is to be done in a scientific manner, we must consider the number of the people needing rehabilitation and their character as well as the gaps created by the Muslims evacuating to Pakistan. According to a census taken by the Ministry of Rehabilitation, the number of refugees from West Pakistan is 50 lakhs and that from East Pakistan up to the end of April 1949 has been estimated at 19·5 lakhs.

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[1] Eastern Economist, May 21, 1948 p. 930.

The number of Muslims who have left for Pakistan is also practically the same. But the two types of people are vastly different. The non-Muslims migrating to the Indian Union are mostly non-cultivating land owners or persons who are engaged in trade, industry and professions. The Muslims, in the other hand, were artisans, technicians and labourers. The former had a very high standard of living in Pakistan, whereas the Muslims of East Punjab had a low standard of living. This makes the rehabilitation problem for us rather difficult. The exodus of the Muslims has created gap in our economic life which incoming non-Muslims cannot fill. The exodus of the Muslims disrupted the economic life of East Punjab and brought industry to a standstill. Before, therefore, rehabilitation of the incoming non-Muslims can be taken up the damaged economy must be repaired and we must get the productive machinery going.

22. Rehabilitation is an All-India Problem. The problem of rehabilitation cannot be tackled piecemeal and cannot be tackled as an isolated problem concerning the two provinces Bengal and the Punjab. It has to be tackled on an all-India basis. It is, therefore, well that the refugees have been dispersed in all the provinces. Roughly 40 lakhs may have to be rehabilitated in East Punjab. All provinces and States have offered to resettle a certain number of refugees.

23. Classification of the Refugees—Rural and Urban. For purposes of rehabilitation the refugees may be classified as rural and urban. The urban population of the Hindus and Sikhs in West Pakistan, who have come over to India, has been estimated at 20 lakhs. The rural population may be put at 35 lakhs. It has been estimated that 27 lakhs of rural refugees have arrived in East Punjab consisting of 18 lakh agriculturists, 3 lakh non-agriculturists belonging to rural areas and 6 lakh belonging to ancillary groups, *i.e.*, artisans, etc.

24. Resources Available for Rehabilitation. For rehabilitation we require land, shelter and employment. If we compare what non-Muslims have left in Pakistan and what Muslims have left on this side, we shall see at once the inadequacy and meagreness of the resources available. The contrast is too glaring. Hindus and Sikhs left behind in West Punjab 67 lakh acres as against 45 lakh acres left by the Muslims in East Punjab of which 11·5 lakh acres are to be found in Hissar and Gurgaon districts which are known for insecurity of crops. Also, the land left by the Muslims is no comparison with the rich canal colonies that our people have left in West Punjab.

The housing accommodation left behind by the Hindus and Sikhs is far superior to that left by the Muslims on this side both in quality and quantity. It has been estimated that there is a net shortage of 75,000 to 100,000 houses on our side.

As for employment available, the prospects are very gloomy. The Hindus and Sikhs that have come out from Pakistan were engaged in trade, industry, services and professions and these are precisely the occupations not available on this side for they are already in the hands of Hindus and Sikhs. The Muslims who have gone were mostly artisans and labourers and this is precisely what the incoming non-Muslims cannot be.

25. **Rural Rehabilitation**. For the rehabilitation of rural population consisting of agriculturists, petty shopkeepers, money-lenders, artisans and menials, it is necessary that the agriculturists should be atonce settled, for others depend upon them directly or indirectly. The East Punjab Government prepared a comprehensive scheme of land allotment according to which all agriculturist refugees, owners, whether cultivating or not, and tenants are eligible ; the allotment is to be on a group basis from the current kharif and rabi crops of 1948 only ; each family is to be allotted, within the framework of joint management, 8 to 15 acres. The group system has been adopted to ensure better cultivation and to economise bullocks and implements of which there is a great scarcity due to the scorched earth policy adopted by the outgoing Muslims and the pilfering by the local non-Muslims.

The scheme has not worked well. The non-cultivating owners have taken undue advantage of their influence and got the land allotted in different places and in different names but did not stick to the land. They were tempted by the standing crops and the offer of taccavi loans which they got and misused but neglected cultivation, and rabi crop was not sown. It is a pity that even when we had an opportunity of writing on a clean slate vested interests could not be eliminated ! An inquiry into the working of the scheme in six villages showed that for the rabi crop of 1947-48 only 66% of the total area abandoned by the Muslims was sown and 90% of the sowing was done by non-allottees. It is said that 40-50% of the allotment favoured non-cultivating owners or those who had no concern with the land. There was 'Robbery, Jobbery and Snobbery.'[1]

The non-cultivating land-owners should not have been settled on land. They are just a burden and unnecessarily add to the pressure on the soil. They should be fixed up in other occupations and they may be compensated otherwise for the loss of land. Excluding them only 20 lakh persons (4 lakh families) have to be settled on land. As only 34·5 lakh acres of land left by Muslims are cultivable out of the total 45 lakh acres, each family can get on an average of 8½ acres.

As the available acreage is not enough, we shall have to develop our land resources through reclamation schemes, irrigation projects, etc. In India there are 83 5 million acres of wasteland. East

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[1] Eastern Economist—May 28, 1948, p. 971.

Punjab has 2·5 million acres of which 9 lakh acres can be definitely reclaimed. This would considerably add to the area available for cultivation. Irrigation works like tanks and tube-wells and major projects like Bhakra Dam, Nangal and Damodar Valley projects, etc. will not only provide extra food, make even the smaller area allotted to a refugee yield more but would incidentally provide considerable volume of employment. Every effort should, therefore, be made to modernise agriculture and add to the productivity of the soil by laying out fruit gardens, using chemical manures, better seeds and better implements.

Land claims in East Punjab have been verified from the records received from West Punjab. It has been decided to apply a graded cut and proceed with permanent allotment of land which is expected to be completed in August 1949.

26. Urban Rehabilitation. Of 11 lakh non-Muslim evacuees from Pakistan, one lakh are estimated to have been engaged in large scale industry and ten lakhs in cottage and small industries, trade, services and professions The expansion of small-scale industry offers a great scope in view of the need of large-scale employment, shortage of consumer's goods, limited means of the refugees and the ease with which small industries can be established. Every effort should be made to transplant the cottage industries of West Punjab in East Punjab. There were several well-known small industries in Sind, *e g*., lungis of Thatta, khes of Nasarpur, woollen carpets of Gadro, lacquer and embroidery works of Halla. These artisans should be assisted to reassemble in East Punjab and they should be put on their legs by granting necessary financial and other assistance.

Among the industries most suitable for expansion and setting up may be mentioned hand spinning and weaving, hosiery, dyeing and calico printing, carpet making, fruit gardening and fruit preservation, dairy farming, poultry, bee-keeping, oil pressing, soap making, sports goods, toys, would-work and furniture, surgical instruments, bicycle industry, leather tanning, paper making, etc. When developed they may well be considered to have the capacity of absorbing 3 lakh persons. The refugees may be given a brief intensive training and the industries may be started on a co-operative basis. Training centres have already been started for the purpose.

The large and medium scale industries can be developed in East Punjab in these directions: one or two spinning mills, a woollen mill at Fazilka, a clothing factory to meet requirements of railway, police and military departments, food processing factories, motor repairing and coach building industry at Jullundur, Kalka and Ambala, ordnance factory in the U. P. Hydraulic engineering at Ambala and Jul undur, button making industry, match factory at Pathankot or Gurdaspur, turpentine factories, several printing presses, besides East Punjab Government Printing Press, saw mills, timber works, tile and brick factories, pottery works for making sanitary wares, drain pipes, crockery, refractory materials, insulators, etc. But such a large scale industrial development is possible only through active Government assistance. Industrial Development Board may be set up for the purpose and also National Rehabilitation Finance Corporation to grant loans. The Provincial Small Industries Corporation may be created to stimulate and assist the development of small industries. The Government of India has established a Rs. 10 crore Rehabilitation Finance Administration. Loans are being granted to industrialists. Several industrial towns are being developed in East Punjab.

Rehabilitation of the petty trader is rather difficult. He needs two things, business premises and residential accommodation in a city. Both these things are notoriously scarce. The towns are a few in number in East Punjab and they are already overcrowded. They also need loans which can be easily granted. If they get a shop and a house to live in, they will rehabilitate themselves. Already they are doing it The improvised stalls at the road-sides and footpaths in the bazars of East Punjab, Western U. P. and Delhi bear ample testimony to the enterprise and resourcefulness of these refugees. The East Punjab Government has a plan of creating 12 satellite townships at a cost of Rs. 2½ crores. The number of business men from Pakistan is estimated to be 2,75,000.

Then there are displaced persons who belonged to liberal professions. Their number roughly is 10,000 doctors, 10,000 teachers, 10,000 lawyers, 10,000 men of letters, arts and science and 28,000 miscellaneous Educational facilities in India are not too many. The teachers and lawyers can be easily absorbed if education is imparted on a proper scale. Doctors can be subsidised and enabled to set up practice in rural areas.

Suggestions for Further Reading

1. Report of Agriculture Commission, 1928 (for Agricultural Unemployment).
2. Report of Labour Commission 1932 (for Industrial Unemployment).
3. Report of the U. P. (Sapru) Unemployment Committee, 1935.
4. Reports of the Punjab Unemployment Committees of 1928 and 1937.
5. Ramaswamy, T. N.—Full Employment for India.
6. N. Das—Unemployment and Full Employment in India.
7. Beveridge—Full Employment in a Free Society.

CHAPTER XXXVII

*THE ECONOMIC EFFECTS OF PARTITION

1. **Introduction.** India was partitioned into two Dominions in August 1947. About two years have passed since then. It is, therefore, possible to study the economic consequences of partition to a certain extent. Absolute accuracy cannot be claimed for the figures given, because even in pre-partitioned India most statistics were faulty while others were wholly absent. Things are improving in the Indian Union in this respect now, but complete statistical data are not yet being published. Besides the tearing apart of one complete organism into two has had and is still producing such far-reaching consequences that it is not possible to study them with much accuracy at this early stage.

Generally speaking partition has had very deletrious effects on the economy of India. India is now a deficit country so far as food is concerned and had to import no less than Rs. 75 crores worth of food grains in 1948-49 and in spite of intensive efforts to produce food grains indigenously will have to go on importing them till 1951 when our long-term river and other projects take effect and make it possible for India to be self-sufficient in food. This is only a part of the sorry tale. A much worse feature is that raw cotton and jute, which were two very profitable exports of India, have now to be imported from Pakistan and elsewhere. Thus India is running a big deficit in her trade relations with not only Pakistan but also with the rest of the world, so much so that there was a minus balance of over Rs. 95 crores in 1948-49 in India's foreign trade.

The dispute between the two Dominions over Kashmir has also an economic genesis, even though it has taken a political shape. Both the Dominions are spending large sums of money on expanding their armies and establishing ordnance factories and arsenals. The 'police action' in Hyderabad and the war in Kashmir have accentuated inflationary conditions in India. These and other allied activities are in direct contrast to the schemes formulated in the united India at the time when the war ended. Instead of being able to economise we have had to spend wastefully to defend our political and economic interests, which has made it difficult for India either to reduce taxation or to balance budgets. The partition has thus had very unwholesome effects on Indian economy which will be cured only after a lapse of some years.

Let us now study the effects of partition on various aspects of economic life in detail.

2. Population. The total population of India according to the Census of 1941 was 389 million. Since then there have undoubtedly been major changes in the set up of the population but all such changes have to be ignored till a new census takes place in 1951. On the basis of 1941 figures the following table indicates the population in the two dominions.[1]

POPULATION

	Population in (Lakhs)	Area in thousands of sq. miles	Density per sq. mile.
India (united)	38,90	15,74	247
Provinces	29,58	8 63	341
States	9,52	7,11	130
Indian Union			
(Provinces)	23,00	6,27	366
States including Hyderabad.	8,40	5,00	168
Total Indian Union	31,40	11,27	270
Pakistan Provinces	6,60	2,36	280
States	50	1,29	39
Total	7,10	3,65	174
Kashmir	40	82	49

It is clear that Indian Union has 81% of the entire population of the country, and only 72% of the area (if Kashmir is ignored). The density of population in Eastern Pakistan is very high, being 718 as against 136 in Western Pakistan and nearly 64% of the total population of Pakistan lives in East Bengal. Thus the pressure of population in Eastern Pakistan is very much greater than in Western Pakistan.

The Pakistan States have a population of 50 lakhs only with a total area of 1,29,000 sq. miles and include very thinly populated area like Baluchistan which has a density of 4 persons per sq. mile. On the other hand, the States in India cover about 40% of the area and 23% of the total population. The number of States in the Indian Union ran into 550 (at the time of the partition) but they have since been reduced into less than 30 groups by the following three methods :

(*a*) Merging with the neighbouring provinces like the States near Bombay, Orissa, etc.

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[1] Since the Kashmir problem is still hanging fire before the U. N., the date about Kashmir is given separately.

(b) Uniting together to form bigger units, like Saurashtra, Himachal Pradesh, Rajasthan, Madhya Bharat, Patiala and East Punjab States Union (Pepsu), etc.

(c) Bigger States like Mysore, Kashmir, Hyderabad, etc. being allowed to stand by themselves.

The accession of Kashmir to the Indian Union has not been agreed to by the Pakistan Government and the matter has gone up before the U. N. who sent a Good Offices Commission to help in the holding of a plebiscite after the raiders have withdrawn and refugees rehabilitated to find out whether the people of Kashmir would like to accede to the Indian Union or Pakistan.

Urban and Rural Population. According to 1941 census, out of 39 crores of total population more than 34 crores lived in rural areas, giving a percentage of 87·2. The relevant figures about the Indian Union and Pakistan today are given below :—

Table. Census figures, 1941.

	Population in lakhs	Urban		Rural	
		Population	Percentage	Population	Percentage
India	38·90	4·98	12·8	33·92	87·2
Indian Union	9·80	4·10	13·8	35·70	86·2
Pakistan	7·10	59	8·3	6·51	91·7
Hyderabad and Kashmir	2·00	25	12·5	1·75	87·5

It is seen that while 86 % people live in rural areas in the Indian Union, as many as 92% do so in Pakistan.

Distribution according to Communities. It was expected that the partition of the country would solve the difficult problem of communal claims, but it has been seen that the problem still remains to be tackled. In the Punjab, due to communal disturbances, a complete migration of non-Muslims into the Indian Union has taken place, while the Muslims have gone over from East Punjab to West Pakistan *en masse.* Approximately one crore people have been thus affected, about 50 lakhs having come over to the Indian Union in place of more than 50 lakhs gone over. This leaves about a crore and a half non-Muslims in East Pakistan and over three crores of Muslims in India. It has been decided that India willbe a secular State. Hence a fair number of Muslims who had gone over to Pakistan are coming back.[1] Consequently, the figures given above are only tentative and final figures will be known only at the time of the next census when this cross-migration movement is complete.

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[1] Recently (May, 1948) the Government of India issued a Communique that Muslims from Pakistan would not be allowed to come back to India in large numbers unless Pakistan Government reciprocated by permitting non-Muslims who had migrated from Pakistan to India to go back.

3. **Agriculture.** In 1938-39 India had a total area of 6,63 million acres, out of which 3,38 million acres were cultivated. The *per capita* sown area in the Indian Union is ·75 acres, and Pakistan ·64 acres. Western Pakistan is better off in this respect having ·85 acres for every person while Eastern Pakistan has only ·42. Fifteen per cent of the total area of the Indian Union is under forests, while in Pakistan it is only 5%. Western Pakistan, however, has at its disposal more culturable waste which can be cultivated when irrigated. At the present moment most of the important irrigation works exist in West Punjab and Sind. Consequently, Pakistan has 36% of its total area under irrigation, while the Indian Union has only 18% enjoying this benefit. The following table gives the necessary facts.

Table Cultivated & irrigated (In million acres) Area.

	Cultivated Area	Irrigated Area	Net Sown	Current fallow
India	251	47	204	47
Pakistan	54	20	43	11
Hyderabad	30	2	27	3
Kashmir	2·3	1	2	0·3
Total	337	70	276	61

The figures for the area under food and non-food crops are given below :

Food and non-Food Crops Area (In million acres)

	Indian Union	Pakistan	Kashmir	All India
Food Crops	202·6	37·7	2·3	242·6
No-Food Crops	49·9	9·0	0·2	59·1
Others	10·2	2·3	0·1	12·6
Total	262·7	49·0	2·6	314·3

Western Pakistan has a surplus of about 6·25 lakh tons of wheat. On the whole she is self-sufficient in the supply of food, but there is a large deficit of rice in East Bengal (7,65,000 tons in 1944-45), which cannot be made good by the small surplus of rice in Western Pakistan. Either this quantity will have to be imported from abroad or the Bengalees will have to take to wheat from West Punjab and Sind. Pakistan grows only 25,000 tons of sugar and has thus a large deficit to make good.

The Indian Union has a very large deficit in food grains amounting to 3 to 5 million tons every year. This deficit has to be provided for by imports from abroad, for which huge sums of money have to be found. Solid steps must be taken immediately to relieve the deficiency. Chemical manures and irrigation facilities are urgent problems. The Government of India is encouraging irrigation schemes of the type of T.V.A. (in U.S.A.) in this country. India produces about 12 lakh tons of sugar per year.

Non-Food Crops

The table below gives the yield of cotton in the two Dominions in the years 1939-40 and 1945-46 in the bales of 400 lb. each.

(Thousand of bales)

	Pakistan	Indian Union
1939-40	15,44	33,65
1945-46	13,28	21,14

The yield per acre is greater in Pakistan than in India, because Punjab and Sind varieties are canal-irrigated. Besides West Punjab and Sind grow long staple cotton. India needs this long-staple variety for her own mills. Out of a total of one million bales of long-staple cotton grown in Pakistan India requires about 8 lakhs of bales.

Undivided Bengal used to produce 85°/₀ of the 8 million bales of jute produced in United India. Out of this the share of East Bengal comes to about 73°/₀. The Indian mills largely use Pakistan jute which is of a better quality. The Indian Union is in a strong position as regards oilseeds, having no less than 74°/₀ of the total oilseeds area while 18°/₀ is in the States and only 8°/₀ in Pakistan. India produces more than 3 million tons of groundnuts, while groundnut production in Pakistan is negligible. Pakistan produces 1½ lakh tons of tobacco, while India produces almost double the quantity.

Coffee is wholly grown in the Indian Union, about 16,000 tons annually. As regards tea, out of a total of 465 million lbs per year, India produces 405 million lbs. and Pakistan 60 million lbs. 75 p c. of Indian tea is exported.

Pakistan has a large surplus of raw jute and cotton, which are largely consumed in the Indian Union.

Pakistan is better off with regard to cows and buffaloes. The production of milk per animal in Sind and Punjab is higher than in other parts of India, Pakistan has thus more milk *per capita* than India. She has also about 18°/₀ of the raw hides.

4. Minerals.

The following table gives a clear picture of the mineral resources of India and Pakistan.

Table. (Minerals in 1944)

Name of Mineral	Indian Union	Pakistan	Hyderabad
Coal (in lakh ton)	248	3	9
Iron (in lakh tons)	23	...	...
Copper (in lakh tons)	3·3	...	...
Manganese (in lakh tons)	3·7	...	...
Bauxite (tons)	12135	...	...
Petroleum (million gallons)	66	21	...
Mica (cwts)	139000	...	...
Chromite (thousand tons)	21	19	...
Gypsum ,,	26	58	...

It is seen that except for a small quantity of petroleum and a few pits of coal Pakistan does not produce any important mineral. There are many other minerals like Barytes, Magnesite, Monezite, diamonds, gold and silver, of which Pakistan has nothing. She has, however, a good deal of chromite and gypsum. She also has a monopoly of rock salt (Khewra Mines) and antimony (Chitral).

The produce of petroleum in India is not enough to satisfy her needs. She has to import large quantities of it from Iraq.

Both dominions have vast potential resources in hydro-electricity. For the time being, India produces most of the electric power. Madras, the U. P., Mysore and Bombay have advanced greatly in electrification. The Mandi Scheme at Jogendranagar will stop supplying power to West Punjab from 1949 and this will be diverted towards East Punjab. The Nangal project and Bhakra dam will supply lakhs of killowats of current to East Punjab in about 5 to 7 years time.

It may be concluded that at the present moment India is in a very much better position as compared to Pakistan in minerals. Surveys in the future may show that Pakistan possesses a number of minerals, but they will take a long time to be exploited. Pakistan shall, therefore, have to import important minerals like iron, manganese ore, copper and mica either from the Indian Union or outside.

5. Industry. No other aspect of the partition of the country perhaps demonstrates so effectively that the partition was a major surgical operation on a living organism as on Indian industry. Accompanied as it has been by the mass migration of the population, it has brought about a divorce between labour and capital and cut the raw materials as under from the factories. This has specially happened in the Punjab, Sind and the N.-W.F.P. where there has been a complete evacuation of the minorities. The artisans and skilled workers, who were mostly Muslims, have left East Punjab leaving behind factories with little suitable labour to work them. The Hindu capitalists have pulled themselves out of Western Pakistan leaving behind their factories closed, with little managerial skill and with no capital to oil the wheels of industry. There the workers are without employment and the factories lack labour.

As for the raw materials, the bulk of the cotton mills are in the Indian Union whereas the bulk of the cotton is grown in Pakistan. Also all the jute mills are located in the Indian Union whereas jute is mostly grown in Eastern Pakistan. In the absence of a suitable agreement and what is more important without its whole-hearted implementation, the raw materials will lose their markets and the mills will suffer from the lack of the raw materials. At any rate, as the mills and the materials are to be found in two independent separate States, there is bound to be some friction and the industry cannot escape some damage.

The following table shows the location of various industries in India and Pakistan based on 1942 figures.[1]

Industries	India	Pakistan
Cotton Mills	357	15
Jute mills	111	...
Sugar mills	176	15
Iron and Steel mills	36	...
Cement factories	57	8
Paper mills	19	...
Glass factories	112	5

It is clear that Pakistan has very few cotton mills, *i.e.*, only 15 out of a total of 372. In 1943-44, the total number was 410 out of which again Pakistan's share was 15.[2] Pakistan share of glass factories was less than 5%, of cement factories about 12% and of sugar mills about 8%. She has no iron and steel works, no paper mills and no jute mills at all. Industrially, therefore, Pakistan is very much ill-equipped. But we should not jump to the conclusion that what is Pakistan's loss is Indian's gain. If they are ill-equipped, it does not follow that we are correspondingly well-equipped. As it has already been pointed out industrial structure has been weakened, because our raw materials lie in Pakistan and quite a substantial percentage of our mill hands and technicians have gone over to Pakistan.

Prof. Vakil has arrived at the following conclusions as regards the relative position of India and Pakistan in the matter of indutries[3] :—

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[1] Eastern Economist Pamphlet No 5—Basic Facts Relating to Hindustan and Pakistan. p. 12.

[2] C. N. Vakil—Economic Consequences of the Partition, 1948, p. 38.

[3] C N. Vakil—Economic Consequences of Partition. 1948, p. 36.

(1) Pakistan's relative share in the industrial employment of undivided India is less than its share in the population of the country as a whole India's share of the industrial establishments is 86%, and of persons employed in industries more than 90% are to be found in India ;

(2) that the development of its (Pakistan's) industries is not as diverse as in the case of Indian Union ;

(3) that it lacks many of the major industries ; and

(4) that even those industries which it has are of a smaller size as compared to that of industries in the Indian Union.

Let us consider the position regarding some of the major industries. On the basis of *per capita* consumption of 15 yards of cloth India is estimated to have an exportable surplus of 1,500 million yards, whereas Pakistan has a substantial deficit. Pakistan's cloth production has been put at 425 million yards as against 6,045 million yards of the Indian Union. But Pakistan's cloth requirements are of the order of 925 million yards.

Pakistan is, however, favourably placed as regards raw cotton. India will have to depend on Pakistan and other cotton-growing countries especially for long-staple cotton. Of the total consumption of 4·5 million bales of raw cotton during 1943-44, India had to depend on imported cotton to the extent of 1·5 million bales and of this one million bales came from Pakistan territories.

As for the jute industry nearly three-fourths of raw jute is grown in East Bengal (Pakistan). But all the jute mills are in West Bengal (Indian Union). The Eastern Pakistan grows jute which is far superior to that grown in the Indian Union and it is especially suitable for the production of hessian. The Indian jute mills depend for jute on Pakistan areas to the extent of 70% of their requirements. Pakistan has in India her most profitable market for the disposal of its raw jute.

As regards the cement industry, India contributes 21 lakh tons and Pakistan 5·5 lakh tons to the total production. Of the two essential materials coal and gunny bags Pakistan is altogether devoid and unless Indian Union helps, Pakistan cement factories cannot work to their full capacity.

Sugar is another essential commodity for which Pakistan will have to depend on India. Production of sugar in Pakistan is not commensurate with her area under sugarcane, the number of factories being very small there.

The iron and steel industry is entirely located in the Indian Union. None of the steel works or pig iron works are to be found in Pakistan. Pakistan is thus utterly devoid of an important basic industry.

Effects of Partition on Punjab and Bengal Industry.

The provinces of Bengal and the Punjab have been particularly hit hard by the partition. Of these the Punjab has been hit the hardest. It had to bear the brunt. History furnishes no example of such uprooting of the millions involving such a large loss of property as well as that of millions of valuables and dear lives. The sufferings of the Punjab is in mental anguish and in physical privations are known only to themselves. The Sindhis too have passed through the same agonising experience. The Bengalis have been wiser. There has been large scale migration of peoples there too ; but it has not been accompanied by arson, loot and butchery which the Punjabis have witnessed.

In these circumstances, it can only be expected that the industry in the Punjab, Sind andthe N.-W.F P. should lie prostrate. Even though almost a year has passed, the factories still lie sealed and the factory hands are still without jobs. Factories in many places have been consigned to fire and machines damaged. Such regrettable acts of vandalism took place on a very large scale. The industrial structure built with foresight and care has been demolished with a devilish glee. Only mad men could act in this manner. Little did these misguided masses realise that they were harming only themselves.

The Punjab was already not a highly industrialised province. It had vast industrial potentialities but they had got to be exploited. The partition had split up this infant industrial structure. The following is the distribution of industries in the two Punjabs[1] :—

Industries		*Muslim Punjab*	*Non-Muslim Punjab*
Cotton spinning and weaving	...	6	10
Heavy Engineering	...	25	14
Chemicals	...	6	3
Ordnance factories and workshops	...	6	1
Match factories	...	3	—
Sugar mills	...	2	3
Oil mills	...	9	2
Woollen mills	...	1	9
Flour mills	...	12	8
Tanneries	...	2	1
Printing Presses and Book binding-Establishments	...	35	8
Paper mills	...	—	1

West Punjab (Pakistan) has got the advantage of getting Lahore on its side. This tilted the balance of some industries in their favour. They have more of heavy engineering industries, chemicals, ordnance workshops, oil mills, flour mills and printing presses and book-binding establishments. But East Punjab (Hindustan) has the advantage in cotton spinning and weaving, sugar and woollen mills.

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[1] Eastern Economist Pamphlet No. 5. Basic facts relating to India and Pakistan.

So far as Bengal is concerned the distribution is as under :—

	Muslim Bengal	*Non-Muslim Bengal*
Leather shoes and tanneries ...	—	9
Dockyard, ship-building and engineering	1	3
Bricks and tiles ...	—	1
Ordnance factories ...	—	3
Engineering workshops ...	13	203
Oil mills ...	3	28
Chemical factories ...	—	25
Cotton spinning and weaving mills ...	8	31
Sugar mills ...	12	1
Woollen mills ...	1	—
Jute mills ...	—	99

The non-Muslim Bengal has an advantage of Calcutta, a big industrial centre. The Muslim Bengal is industrially very backward. It has no tanneries, jute mills, ordnance factories and chemical factories. Its only advantage is in sugar mills, whereas the West Bengal (Hindustan) has an advantage all along the line.

6. Trade between India and Pakistan. We have seen that Pakistan is much more of an agricultural country than India. Before the partition, the needs of one part of the country were met by movements of goods from others. India's internal trade was vast, being approximately as much as 15 times the external trade. This is mere guess-work as there is a complete 'black-out' so far as internal trade figures are concerned.

It is further seen that the complexion of India's foreign trade during the war years has much changed. From being a deficit country she has emerged as a creditor country and does not need such a heavy favourable balance of trade as she did in pre-war times. But due to (*i*) a deficit in food grains, (*ii*) an urgent need for capital goods and (*iii*) unsatisfied hunger for consumer goods, India's trade has not yet assumed a normal shape. The selection of a normal year, therefore, to get a correct perspective of the trade relations of India with foreign countries including Pakistan is not an easy task So far no official statistics of trade between the two dominions have been published. To split up the trade figures of United India into two parts, thus presents great difficulties.

In addition the political relations between the two dominions have not yet settled down. There is a great deal of tension and, although it is neither politic nor *desirable*, a rupture may come any time over an important issue like Kashmir or a comparatively unimportant one like the supply of water to some canals. Tariffs are still in the making, and discussions and conferences going on while decisions arrived at are not implemented. Consequently, the estimates made here of the trade possibilities between Pakistan and India are still tentative and should be treated as such.

We have seen that Pakistan stands in need of manufactured goods, especially cotton manufactures, sugar and steel, leather and jute goods. In addition she will have to obtain coal, glassware, mica and metals, like copper, from India. India in return needs to import raw jute of a superior quality from East Bengal and long-staple cotton and food grains from West Pakistan. Dr. D. K. Malhotra in the *Eastern Economist* makes a rough estimate of the trade on private account between India and Pakistan as below :—

Balance of Total	In crores of Rs. India	Pakistan
(*a*) Raw cotton, jute and food grains	−95	+95
(*b*) Coal, iron, cotton textiles, sugar, jute manufactures, etc.	+90	−90
	−5	+5

On the other hand, Prof. C. N. Vakil estimated that on the basis of figures for the year 1946-47 India will have an overall deficit of Rs. 47 crores in her trade with Pakistan. It is estimated that India will import about 4 million bales of raw jute, half a million tons of food grains, and about half a million bales of long staple cotton. In the reverse direction India will export about 3 million tons of coal, 500 million yards of cotton cloth, and 5 million maunds of sugar. In addition Pakistan will need from India, miscellaneous manufactured goods in which she is deficient.

It may be stressed that these exports and imports are possible only if goods are allowed to be exported and imported freely and there are no impassable customs barriers put up between the two dominions The needs of two dominions are complementary and a common customs union can be helpful to both, yet it is seen that Pakistan is trying to develop an economic policy which will make her wholly independent of India. Duties are being imposed and a land customs barrier established.[1] India has had to retaliate in self-defence. Such policies are unfortunate. They not only restrict the free purchase and disposal of necessary goods but also create a hostile atmosphere.

United India had an adverse balance of trade from the last quarter of 1946. So has had the Indian Dominion since her establishment. Her balance of trade with Pakistan too is unfavourable. India needs hard foreign currencies like the dollar to buy food grains and capital goods from abroad. Her sterling assets are not

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1. (*a*) Duties levied by Pakistan in Feb. 1948
   1. Raw Jute—Rs 60/ per pucca bale.
   2. Raw cotton—Rs. 60/- per bale of 400 lbs.
   3. 10% *ad valorem* duty on raw hides and skins.
   4. 10% *ad valorem* duty on cotton seeds.

   (*b*) Duties levied by Indian Dominion.
   1. 25% *ad valorem* duty on cloth and cotton yarn (not handloom)
   2. Rs 80/ per ton on oilseeds.
   3 Rs 200/- per ton on vegetable oils.
   4. Rs 20/-per ton on manganese.

being released according to her needs. Therefore, in order to conserve foreign exchange for the purchase of essential goods, the Government of India has had to impose a strict austerity economy on the people by putting restraints on the imports of consumers' goods from abroad. It is suggested that India's trade with Pakistan should be treated on the same footing as the rest of her foreign trade and should be similarly controlled by a competent Central Organization meant for regulating her foreign trade. The table below gives an estimate of trade figures referred to above on the basis of prices as on 11-12-1947.

TABLE

Estimated Imports of Pakistan from India

Commodity	Quantity	Price	Total Value in crores of Rs.
Sugar	1·75 lakh tons	-/8/- per lb.	19·4
Cement	1 lakh ton.	Rs. 65/- per ton	·65
Cotton textile	500 million yds	12 as. per yd	37·5
Coal	3 million tons	Rs. 16/13 per ton	5
Steel, leather, jute goods, metals, and mix manufactured goods	——	——	12
Total	——	——	Rs. 74·55 crores

Estimated Exports of Pakistan to India

Commodity	Quantity	Price	Total Value in crores of Rs.
Raw Jute	4 million bales	Rs. 170 yer bale	85 0
Wheat	·5 million tons	Rs. 13/1/- per md.	17·7
Raw Cotton	8 ,, bales	Rs. 236 per bale	18·8
Total	——	——	Rs. 121.5 crores.

Balance = minus Rs. 47 crores.

The trends of trade conditions between India and Pakistan show us that Pakistan will try its level best to export jute to foreign countries independently of India and she would rather dispose of her surplus cotton to foreign countries than to India in order to earn foreign currencies. Besides, Pakistan is anxious to purchase machinery and equipment from America and elsewhere to utilize her cotton and jute within her own boundaries. Pakistan is carrying on negotiations with Japan, Australia and Argentine for the above purpose. These conditions clearly show us that India will have to grow her own jute as far as possible and to buy cotton from Egypt and East Africa. Therefore long-term arrangements should be made in India to grow our own jute and cotton as far as possible.

Figures for trade between India and Pakistan across the land frontier are not included in the statistics of Indian foreign trade. Most of the jute from East Pakistan, and cotton, salt and other things from West Pakistan do not come in by sea but by rail or road. Hence imports from Pakistan in 1948-49 are shown as Rs. 22 crores only against Rs. 44 crores of exports from India to Pakistan. In reality there is a big deficit in Indian trade with Pakistan when both sea-borne and over-land exports and imports are taken into account.

7. **Transport.** We shall now discuss the effects of partition upon the railway services of India.

Out of the nine railway systems seven wholly fall in the Indian Dominion, while the other two, the North Western Railway and the Assam Bengal Railway have been split up according as they are situated in either of the two dominions. The division between the two dominions according to milage is as below :—

Railway Milage.

Indian Union	Miles	Pakistan	Miles
1. N. W. Railway.		1. N. W. R.	
(called East Punjab)	1,610	Commercial lines	3,110
Commercial lines.		Strategic lines	1,817
2 Assam Railway.		2 Assam Railway.	
Broad Gauge	376	Broad Gauge	503
Metre Gauge	1,399	Metre Gauge	999
3. E. I. R, B. B. & C. I. B. N. R. G. I. P. M. S. M. O. T. R. S. I. R. Bezwada and Dhore Kurnool	21,180	3 Jodhpur. Hyderabad Railway.	319
Total	24565		6,748
Total Capital at charge (1948-49)	Rs. 7,02 crores	Total Capital at charge (1947)	Rs. 1,86 crores.

The table shows that while the Indian Union owns about

77°/$_o$ of the total route milage of India the total capital at charge in her case is about 84°/$_o$. As a result of the partition, however, India has been relieved of the burden of the strategic sections of the N. W. R., which resulted in a total loss of Rs. 42 crores to the railways between the year 1924-25 and 1945 46. There is thus a relief of about Rs. 2 crores a year.

Due to the recommendations of the Pay Commission, which India has accepted and Pakistan has not, the wage bill of workers on the railways in India will rise. Prices of stores and fuel are also rising. There can, therefore, be but little hope of a fall in the costs in India.

The Indian railways suffered much from the civil disturbances in the country. The movement of refugees from and to Pakistan brought about a great deal of dislocation in the finances and general administration of railways. It may be mentioned that "during the period of two months and a half the railways were called upon to move as many as 3 million refugees which represents the capacity of a thousand passenger trains. That was a terrible strain on the railways".[1]

Another difficulty that resulted from the partition was the transfer and exchange of staff between India and Pakistan. This led to a great deal of disorganisation and shortage of essential workers in particular categories. "The East Indian Railway suffered most of all, in regard to their engine crews, which created a first class national crisis in respect of coal movement."[2]

Railway Finances. During the year 1946-47, the railway systems now wholly in the Indian Union like the E.I.R., G.I.P., etc., earned a profit of Rs. 10·26 crores, while the railways, which had been split up like the N.W.R. and Assam Bengal Railway earned a small profit of Rs. 71 lakhs only. The Indian railway budget for 1948-49 anticipates a surplus ; while the Pakistan Government have thought it wiser to amalgamate the railway budget with the general budget for obvious reasons. It may thus be safely concluded that the Indian Union Railways will probably earn profits in spite of having accepted a wage bill at higher rates while Pakistan railways will probably fail to show a surplus in spite of having refused to accept the Pay Commission's recommendations. We find that in the year 1948-49 the Indian railways intend to spend Rs. 5,82 lakhs on amenities for the staff, Rs. 2,83 lakhs on amenities for the public, while large sums of money amounting to more than Rs. 53 crores[3] are intended to be spent out of the Depreciation, Reserve and Betterment Funds for providing rolling-stock and equipment. It has also been proposed to establish a direct link between Assam and India at a total cost of Rs. 2·5 crores. Besides the Darjeeling Himalayan

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1. John Matthai—budget speech of 1948-49.
2. Ibid.
3. Rs. 25 crores from Capital, Rs. 5 crores from Betterment and Rs. 23,43 lakhs from Depreciation Funds.

Railway is proposed to be purchased during the year 1948-49 at a total cost of about Rs. 61 lakhs. Mr. John Matthai sounded a note of subdued optimism as regards the future working of Indian railways saying that "probably we have reached a stage where the steady process of deterioration which began with the partition and the consequences that flowed with partition have now been definitely checked. I can say with a certain degree of assurance that we have turned the corner." It is seen that ticketless travelling is being checked and lawlessness controlled. There is a decrease in the average figures of turn-round of wagons on our congested railways. Similarly, there is a fall in the number of wagons returned unloaded from the collieries. There is improvement in the man-day's work in the workshops of most of the railways. In the marshalling yards where heavy traffics occur as at Kanpur, Asansol, etc., there is a reduction in the period of retention of locomotives and wagons. Although about a third of our railway engines are over-age, yet there is an improvement in this direction too with a greater availability of spare parts from the U.K., and the manufacture of some of them in our Ordnance Factories. More locomotives and wagons are being imported as soon as available. It may be mentioned that the first road steamroller built in India, "The City of Delhi" has been put on the road and the time is not far off when India-made locomotives will give us service.

Railway budgets for undivided India in 1939-40 and the Indian Dominion in 1948-49 are given below to show the great rise in income as well as expenditure. During the war years huge surpluses were earned only to be credited to the general revenues of the Government of India. These surpluses have dwindled down to small proportions today while lines and equipment have been greatly worn out and need renovation as quickly as possible. The Pakistan Government did not budget separately for their railways for 1947-48 and 1948-49. They presented a combined budget to the legislature. Hence figures for Pakistan railways are not very useful.

	Undivided India.	Indian Dominion.		Pakistan	
	1939-40	47-48	48-49	1947-48	1948-49
Gross Revenues.	102·73		190	20·10	36·89
Total Working Expenses			159·78	22·15	37·15
Net Misc. Revenue	·64		2·16	...	...
Net Revenue	33·44		32·38	...	...
Interest Charges	29·11		22·53	...	
Surplus Profit or loss	+4·33		+9·85	...	... ...

(Pakistan figures include Posts and Telegraphs. Net Revenue and expenditure and rest of the figures are not available.)

Shipping. Undivided India had only 1,50,000 tons of shipping, barely 24 per cent of the total world tonnage. Out of this Pakistan secured no more than 40,000 tons of shipping.

Roads. Out of a total of 3,15,000 road milage, India has 2,65,000 and Pakistan 50,000. This milage includes all sorts of roads, metalled and unmetalled.

8. **Currency and Exchange.** The currency system is one indivisible thing. It is easy to divide territory ; it is easy to divide assets and property. But it is impossible at once to split the currency system. A new and autonomous currency system cannot be created overnight. It was therefore essential to let the Indian Currency System function in the new Dominion of Pakistan long after the creation of this sovereign State. To facilitate this Pakistan Monetary System and Reserve Bank Order 1947 was issued. It contains the following main provisions :—

(*i*) Indian notes will continue to be legal tender in Pakistan till 30th September, 1948.

(*ii*) On 30th September 1948 Reserve Bank of India will retire as a note-issuing authority for Pakistan which will then have unfettered authority to make its own currency arrangements.

(*iii*) After 1st April, 1948, Reserve Bank may issue 'Pakistan notes.'

(*iv*) Assets of the equal value of Pakistan notes will be transferred by the Issue Department of the Reserve Bank of India to the Government of Pakistan soon after 30th September, 1948.

(*v*) Pakistan will have to accept Indian notes from the Reserve Bank of India in certain circumstances until 1st of October 1949 but they will be replaced by Pakistan notes as and when acquired.

(*vi*) For one year after the issue of Pakistan coins the Indian rupee and the subsidiary coins will remain legal tender in Pakistan.

The net result of these provisions is that Pakistan will assume full authority over currency affairs on 1st of October 1948 *i.e.*, one year and six weeks after its creation as an independent sovereign State.

What about the rate of exchange ?

Pakistan will have the authority to declare the par value of her currency on the 1st of October, 1948. The financial agreement between India and Pakistan concluded on 12th December, 1947, puts

Pakistan in a fairly strong position and will give her ample time to decide her exchange policy. Sufficient cash has been placed at her disposal and immediate support of Pakistan securities will not be needed to create the note-issue. Agricultural commodities grown in Pakistan, *viz*, wheat, cotton and jute, are in very great demand and Pakistan may be expected to have a substantially favourable balance of trade. Thus there will not be any need for her to devalue her currency. Rather they may over-value their currency in order to stimulate imports. But we should not forget that the goods they may desire may not be available in a short period on account of universal shortage of such goods. On the whole it seems that Pakistan currency will maintain parity with our rupee in fact though not in law. It will be essential to maintain parity between the internal price levels of the two Dominions. The Pakistan budget of Rs. 80 crores shows an inflationary tendency. Austerity measures will be necessary to control the price level in Pakistan. Will Pakistan play the game ?

9. **Banking.** The number of banks and their branches in the two dominions just after partition is clear from the following table :—

	India	Pakistan
1. Scheduled Banks		
Head offices	85	13
Branch offices	2448	620
Total	2513	633
2. Non-Scheduled Banks		
Head offices	462	157
Branch offices	1175	411
Total	1637	568
Grand Total	4150	1201

Pakistan has about 20% of the total population and she had the right proportion of Bank offices at the time of the partition as is clear from the above table but since then many banks have migrated to India from Pakistan and have closed many of their branch offices in that dominion.

Since the partition banking business in India has increased considerably, while in Pakistan it has decreased proportionately. The following table makes it clear :—

In crores of Rs.

	Demand and time liabilities		Advances and bills discounted.	
	22 Aug. 1947	9 April 1948	22 Aug. 1947	9 April 1948
India ...	929	1094	374	498
Pakistan ...	104	102	45	39
Total ..	1033	1196	419	537
Percentage of Pakistan to Total	10%	8%	9%	7%

The Clearing House returns for the centres in India and Pakistan also show a similar trend. The monthly statement of the position of scheduled banks also gives us the picture.

Statement of the position of Scheduled Banks in India and Pakistan. (In crores of Rs.)

	Demand Liabilities		Time liabilities		Cash		A		Bills Discounted	
	India	Pakistan	India	Pakistan	India	Pakistan	India	Pakistan	India	Pakistan
22 Aug 1947	625	65	314	39	36	5	59	44	15	132
7 May 1948	683	85	314	18	37	4	438	33	17	

As a result of the partition there were communal riots in the Punjab. Non-Muslims had to leave Pakistan territories of Sind. W. Punjab and N.W.F.P and migrate to India. They transferred their accounts and deposit resources to India along with themselves. Some important banks like the Punjab National Bank migrated, others were compelled to close their banking offices in West Punjab and elsewhere. The Hindu indigenous banker also cleared out with his capital. Pakistan tried to prevent the flight of capital and bullion by arbitrary methods but did not succeed. As a result the banking position in Pakistan grew weak. On the other hand as is clear from the table above, the position of banks in India has improved.

Bank advances and bills discounted declined in Pakistan showing that business conditions deteriorated. Time deposits went down from Rs. 39 crores to Rs. 18 crores in Pakistan due to the lack of confidence in banks.

The partition threatened the banking system in East Punjab.

The refugees tried to withdraw their deposits from banks which had their head offices at Lahore. The Government of India, therefore, tried to stem a run on the banks by declaring a moratorium for three months in the first instance, extended later for some banks like the New Bank of India Ltd., and amended the Reserve Bank of India Act in September 1947 to confer powers on the Bank to make loans or advances against such forms of security (not specified before) as the Bank may consider sufficient for the purpose. This was done to assist refugee banks and to avoid unnecessary distress to refugee depositors. These measures saved the Indian Banking System from serious harm.

The West Punjab Government finding that the non-Muslim businessmen who were financing the wheat and cotton trade in the province had left and most of the banks had closed their doors, was compelled to float a Finance Corporation with a paid-up capital of Rs. 1 crore.

With effect from 1st July, 1948, Pakistan floated its own Central Bank, called the State Bank of Pakistan, to manage its paper currency, public debt and exchanges. It has a fully paid-up capital of Rs. 3 crores, divided into 100-rupee shares. The Central Government subscribed 51°/ₒ of the share capital, so as to retain the majority control in their own hands. A cumulative dividend of 4°/ₒ is permitted. The rest of the profits earned will be credited to the Reserve Fund till it reaches Rs. 3 crores and will then be paid to the Government. The structure of the bank is mainly based upon that of the Reserve Bank of India.

10. Public Finance. India has been split up into two independent sovereign States and each must have its own sources of revenue to meet its public expenditure. Division of sources of revenue is meaningless ; the only things to be divided are the cash balances and the liabilities. Each Dominion will get the income arising out of the various sources of revenue within its own boundaries except in the case of a tax on a commodity like jute—about which an inter-dominion agreement will be essential. Three-fourths of jute is grown in Pakistan but 90 p.c. of the exports pass through Calcutta which is in the Indian Union. It will be unfair for India to appropriate to itself, the whole of the export duty on jute the bulk of which is grown in Pakistan. Pakistan imposed a duty of its own on jute going out of its own frontiers. This, in normal circumstances, is bound to injure her export trade and give a fillip to efforts towards finding jute substitutes. The respective shares of the Central Excise Duties can be estimated according to the source of production ; in some cases an estimate can be based on population.

Prof. C. N. Vakil has worked out the division of the Central revenues relating to 1944-45 figures as under[1].

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[1] C. N. Vakil— Economic Consequences of the Partition, 1948, p. 76-77.

	Major Heads of Revenue	Share of the Indian Union.	Share of Pakistan.	Total
1.	Customs.	29,32	8,97	38,29
2.	Central Excise Duties.	32,87	5,27	38,14
3.	Corporation tax and taxes on income other than corporation tax ;			
	(A) Ordinary Collections.	52,95	4,43	57,38
	(B) Surcharge.	32,73	2,84	35,38
4.	Business Profits Tax.	11,00	1,00	12,00
5.	Civil Administration.	1,91	51	2,48
6.	Currency and Mint.	9,60	2,86	12,46
7.	Civil Works.	59	18	77
8.	Interest.	1,37	41	1,78
9.	Opium.	1,04	...	1,04
10.	Receipts from States.	46	14	60
11.	Receipts in connection with war.	14,32	4,28	18,60
12.	Net receipts from Posts and Telegraphs.	7,89	2,36	,25 10,00
13.	Net receipts from railways.	24,64	7,36	32
14.	Direct share of income-tax distributed to Provinces.	20,25	1	26,56
	Total	240,44	35,29	235,63

The following table shows the Provincial Revenue :—

(Pakistan Provinces)	(Lakhs of Rupees)
West Punjab	14,95
Sind	8,80
N. W. F. P.	1,84
East Bengal	18.84
Sylhet	1,00
British Baluchistan	20
Provinces of the Indian Union.	
East Punjab	8,06
U. P.	27,47
Bihar	12,75
Orissa	3,18
Assam (Sylhet)	4,92
C. P. and Berar	9,62
Bombay	33,67
Madras	41,24
West Bengal	14,78

As for the public expenditure, the partition has resulted i a phenomenal increase. The circumstances leading to the estab

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1. Ibid.—Table p. 77.

lishment of Pakistan, the violent disturbances attending the birth of this new State and the mass migration of minorities is bound to leave a bad legacy behind. The mutual suspicion, the existence of supposed enemies living on a vast land frontier and the presence of fifth columnists inside the border has rendered the defence, internal and external, a complicated costly affair. Both Dominions must have an adequate, efficient and a well-balanced force to defend the hard-won freedom. The Navy, the Air Force and technical branches of the army must be developed within a short time.

The country has been shaken to its bottom and people will take some time to settle down. Liberty is being interpreted as licence. In these circumstances there must be a substantial increase in the cost of maintaining lawand order.

The refugee problem is another by-product of the partition. The Government of India set aside a sum of Rs. 22 crores for the relief and rehabilitation of the refugees. For some years to come a lot of expenditure will have to be in curred in putting back these unfortunate millions into gainful occupations and providing food and civil shelter for them.

The partition has worsened the food situation too. Sind and West Punjab which could supply a large quantity of food to some of the Indian provinces, can no longer be expected to do so. The immediate effect of the partition was the incalculable damage to crops owing to large scale disturbances. Expenditure on food subsidies has considerably gone up. The two food items and rehabilitation of refugees account for Rs. 44½ crores out of a total of Rs. 104½ crores expenditure.

One consequence of this extra heavy expenditure will be to curtail all developmental expenditure. The nation-building departments must suffer and the development schemes must be put off. There is little scope for further taxation. Hence greater reliance must be placed on loans rather than revenues for the execution of post-war schemes.

Liability for the payment of pensions in its own territory devolves on each Dominion. This liability to amounts Rs. 235 lakhs a year. But for the overseas pensions the responsibility has been undertaken by the Government of India and so also for the interest charges on all loans of the pre-partition Government of India. This comes to Rs. 68·5 crores a year.

Division of Assets and Liabilities. A financial agreement was signed between the two Dominions on 12th December, 1947 laying down broad principles governing the distribution of assets and liabilities.

On 1st March, 1947, the amount of interest-yielding assets was Rs. 1,000 crores, the uncovered debt Rs. 867 crores and cash and securities held on Treasury Account Rs. 514 crores.

As for the interest-yielding securities of Rs. 1,000 crores Prof. Vakil has worked out a division of Rs. 165 crores for Pakistan and Rs. 835 crores for the Indian Union. Out of a total cash balance of Rs. 400 crores, Pakistan's share is Rs. 75 crores. Of the uncovered debt of Rs. 867 crores Pakistan's share is to be calculated at 17½%. Pakistan is to get one-third share out of military stores and an advance of Rs. 6 crores to enable it to set up ordnance factories.

The Government of India has undertaken to pay interests on all securities of the Government of undivided India even though the holders of some of these securities may be nationals of Pakistan. The Pakistan Government, however, will be liable to pay its share to the Government of India and it will discharge its indebtedness by annual instalments extending over 50 years. The payment of instalments will commence on the 5th year of the partition. So for five years Pakistan need have no financial worry. Its citizens will continue receiving interest on securities from the Indian Government. After the 5th year Pakistan will pay annually to the Government approximately Rs. 15 crores to liquidate its indebtedness to India. But India's liability to the holders of securities in Pakistan will be about Rs. 7 crores. Hence the net annual payment to India will amount to Rs. 8 crores nearly.

CHAPTER XXXVIII

STERLING-DOLLAR CRISIS, 8949

In recent times the balance of payments position of the sterling areas, and of the U.K. in particular, has been fast deteriorating. The sterling area has been recently running a dollar deficit equivalent to nearly £ 600 million a year. The dollar gap has assumed alarming dimensions and has been widening at a perilous pace. It is, however, wrong to regard it as a purely post-war problem. Since the 'thirties the sterling area has been finding it difficult to achieve a balance of trade with regard to dollar countries. In 1938 the sterling area had a total deficit of £ 130 million. The post-war gold and dollar deficits of the sterling area have been: 1946—£ 225 million; 1947—£ 1,024 million; 1948—£ 423 million and the first half of 1946—£ 239 million, making a total of £ 1,911 in three million and a half years.

This deficit has been met by drawing on U.S. credit which was exhausted early in 1948, on Canadian credit of which only £ 50 million is left (July 1949), by the South African gold loan of £ 80 million, Marshall Aid payments, and drawings on the International Monetary Fund. About £ 200 million deficit has been covered by reduction in gold and dollar reserves to nearly one-half of their figure at the end of June last. It is a very serious situation and cannot be allowed to continue any longer. The unbalanced nature of Britain's Balance of Payments could well continue in the pre-war times. There were British investments in the U.S.A. and Canada and their income offset to some extent this deficit. But these investments almost disappeared during the war and Great Britain has now no longer any capital to live on.

How has this deficit been caused? Among the chief factors that have conspired to create this deficit may be mentioned:

(1) Increased dependence of the sterling area on supplies from **America**;

(2) the war-time sale of dollar income-yielding assets;

(3) net dollar loss on shipping services arising out of the need for chartering American tankers to carry increased output of British oil companies;

(4) the fall in the purchasing power of gold in terms of dollar area exports to about two-fifths of its pre-war level;

(5) the basic cause of the dollar problem lies in the war-time destruction of the balance of production between the Western Hemisphere and the rest of the world;

(6) the recent recession in U.S. business activity and commodity prices which led to a fall of nearly one-half in imports of raw materials and foodstuffs from the British colonies and a sharp drop in the American purchases of British goods ;

(7) high cost of production of British goods impeding exports ;

(8) large payments of dollars to countries outside the sterling area such as Belgium and Switzerland ; and

(9) the policy of insulation of sterling itself which is making exports from the sterling area progressively more difficult.

These are the causes which have contributed to the chronic dollar deficit.

What is the remedy ? A conference of Commonwealth Finance Ministers was convened in the middle of July, 1949, to find a way out of this difficult situation. It was preceded by 'high level' talks between Sir Stafford Cripps, Great Britain's Chancellor of the Exchequer, Mr. John Snyder, U.S. Secretary for the Treasury, and Mr. D. C. Abbot, Canadian Finanee Minister. Sir Stafford announced in the Commons that Great Britain would cut dollar purchases in 1949-50 to the tune of £ 100 million, *i.e.* 25 p c. of what they were in 1949.

At the conclusion of the Commonwealth Conference a communique was issued which laid down the short-term and long-term measures which the Sterling Block proposed to take to meet this difficult situation. Without specifically mentioning £ 100 million cut in British dollar purchases, as "immediate steps to check the drain on the central reserves of dollars, the Ministers concerned agreed to recommend to their Governments action comparable in its results to that already decided upon by the United Kingdom".

Although every member of the Commonwealth was not expected to effect a cut of 25 p.c. in its dollar purchases, yet the overall effect was expected to be 25 p c. cut in the total dollar purchases of the sterling area. The under-developed countries like India and Pakistan could not be expected to make proportionate cut. Their need for dollar purchases is immediate and urgent. A large cut in dollar purchases just now for them would mean starvation or economic stagnation. Mr. Ghulam Mohamed, Pakistan's Finance Minister, made it clear that these cuts would be on the basis of "equality of sacrifice." Dr. John Matthai, India's Finance Minister, emphasized that "the sacrifice to tide over the crisis could be effective and fair only if they were proportionate to the capacities of the countries to bear the burden". The main consideration of the more prosperous members of the sterling area, like Great Britain and Australia, is to maintain the existing standard of living, avoid unemployment and to keep down prices. But in the case of India it is a question of ensuring food supplies to ward off famine, carrying on of development schemes of food production and industrial development and raising a bit the standard of living from the starvation levels.

Besides dollar cuts, it is also necessary to explore the possibility of diverting demand for products of the dollar area to those of the sterling area. But this possibility depends on comparative prices ; delivery dates are also of prime consideration in this connection.

Pending long-term remedies, another immediate measure which can be adopted by the various sterling area countries to meet the situation is to readjust their export programmes. The object of this re-adjustment is not only to close the gap in consumer or capital goods caused by dollar cuts but to exploit to the utmost the dollar-earning capacities of the members.

The U.S.A. can help in lifting this crisis in the sterling area by lowering her tariff walls so that the exports of the sterling area to the U.S.A. may be increased. In this way earnings of dollar by the sterling area can be increased.

The Commonwealth talks also suggested that on the analogy of the International Wheat Agreement, pacts should be concluded between the sterling countries and the U.S.A. for the sale to the latter of rubber, tin, cocoa, jute and cotton. In order to be helpful the U.S A. must resort to 'stock piling' of these raw materials. Malaya with her tin and rubber, and India and Pakistan with their Jute and cotton are the dollar-earners of the Commonwealth and they must receive all encouragement in the expansion of their trade and industry. By the guarantee of arms supply, the U.S.A can enable European countries to devote themselves to the building up of dollar export trade. Fresh American investment on the lines of Marshall Plan abroad can go a long way towards the solution of the problem of dollar shortage. President Truman's Point 4 Programme for the assistance of under-developed countries must be implemented in much more liberal terms.

The cut in dollar purchases is, however, only a negative approach, 'a mark time measure' as Sir Stafford put it. The lasting solution of the sterling area's difficulties can be found only in a substantial expansion of the trade. Towards this end, costs of production must be reduced, output must be increased and its quality must be improved. Only then these countries will change from sellers to buyers markets.

In these dollar-sterling talks it was agreed that the aim must be the achievement of a pattern of world trade in which the dollar and the non-dollar countries can operate together within one single multilateral system.

One of the measures suggested to meet the dollar shortage was devaluation of sterling. But Sir Stafford Cripps declared categorically and in most unambiguous terms that the British Government had absolutely no intention of devaluing sterling Lord Addison reaffirmed it in the House of Lords on July 25, 1949, saying that there was "no intention whatever of entering into this rash experiment of devaluation of sterling". The American insistence on the devaluation of sterling is understandable. It would mean cheaper purchases of raw materials etc. from the sterling area. Exports from the sterling area will no doubt receive some stimulus from depreciation of sterling. But this would mean only a temporary advantage, because when prices are adjusted to the new ratio, costs will go up ; wages will have to be raised and the advantage would cease.

Among the very strong objections to the devaluation of sterling may be mentioned the following :—

(1) The resulting increased exports to the U.S.A. would be more than offset by a reduction in the dollar proceeds from sterling area exports resulting in a net reduction in dollar earnings.

(2) In view of the recession in the U.S.A., it is even doubtful if there will be any appreciable increase in exports to the U.S.A. Every fall in U.S. prices will necessitate further devaluation of the pound.

(3) Sterling-prices of food and raw materials will rise which will mean a rise in the cost of living and the cost of production both of which will create a very awkward situation.

(4) Increased prices of food and raw materials will be reflected in the prices of British exports which will consequently be further hampered. Terms of trade would turn progressively against Britain.

In spite of these denials and protestations the belief persisted in certain quarters that devalution of sterling was inevitable. This state of uncertainty was standing in the way of easing the situation. The payments from dollar area, and also fresh orders, were held back in the hope that less would have to be paid when the sterling was devalued. Expansion of trade was thus seriously hampered As Mr. Richard Denman of the London '*Economist* pointed out, "By waiting for devaluation, they increase the pressure to devalue ; devaluation begins to be needed to get the wheels of trade turning again".

Devaluation of the Rupee. Linked with the suggestion for the devaluation of the sterlingcame the suggestion for the devaluation of the rupee. Mr. C H. Bhabha, our former Commerce Minister, said that the time was very opportune for the devaluation of the rupee. We are emphatically of the opinion that it is most inopportune time for disturbing the rupee-sterling rate. No doubt our balance of trade is unfavourable, the extent of our adverse balance in 1948 was to the tune of Rs. 240 crores. Devaluation of the rupee may offer some temporary stimulus to our exports. Yet devaluation by itself cannot rectify an adverse balance. For that we want rapid economic development of the country and the most efficient use of our resources. We must produce our own food and develop industrial materials inside the country. We must accelerate industrial development, increase our output, improve its quality and lower the cost of production. These things cannot be achieved simply by waiving the magic wand of devaluation. If that were so the trick would have been done long ago. At present we are importing huge amounts of food. In 1948 we spent Rs. 130 crores on imported food and in 1949 it estimated to cost Rs. 150 crores. We are purchasing from abroad capital goods in very large amounts for our development projects. If the rupee ratio is lowered say from 1*s*. 6*d*. to 1*s*. 4*d*, all these things will cost us 12½ p.c. more.

Then again, lower ratio would mean higher prices. That is precisely what we want to avoid. Devaluation of the rupee would be a strange way of fighting inflation. Already our prices are higher than most other countries. The way of wisdom lies in lowering them and not doing anything which is calculated to raise them still further. Hence we must for the time being avoid "monkeying with" the ratio.

The real solution of the dollar problem is, therefore, to reduce dollar expenditure by cutting dollar imports and increase dollar income by increasing exports to dollar areas. For this purpose internal prices and costs must be reduced in order to make the goods competitive in dollar markets.

Sterling Balances Agreement, 1949. The 1949 Agreement relating to Sterling Balances is undoubtedly a great improvement on the agreement that was concluded in 1948 both as regards the sums convertible and the amount of sterling releases.

According to the 1948 Agreement, £ 80 million, the unspent balance in our No. 1 Account, was carried forward and £ 40 million was to be released for each of the 12-monthly periods July-June 1949-50 51. The amount convertible into 'hard' currency was fixed at £ 15 million ($60 million).

The main provisions of the Agreement concluded in July, 1949 are :—

(1) £ 81 million has been agreed to be the amount of release for 1948-49 for which year the 1948 Agreement did not provide any realease.

(2) The annual release for the 12-monthly periods ending June 1950 and 1951 has been increased from the original amount of £ 40 million to £ 50 million.

(3) There will be an additional realease, not specified in the agreement, sufficient to cover the liabilities arising out of the Open General Licence XI (O G.L XI) before its cancellation. Imports under the O.G L XI proved to be unexpectedly heavier. It was considered beneficial to the economies of both India and the U.K. not to reduce the imports all of a sudden. The U.K., therefore, agreed to release additional sums required by India to meet her outstanding commitments under this head.

(4) So far as convertibility is concerned, under the 1948 Agreement India could draw not more than £ 15 million ($60 million) in 'hard' currency from the Central Reserves during July 1948-June

1949. But according to 1949 Agreement India has the right to draw on Central Reserves to the extent of about $ 140 to $ 150 million.

It has also been agreed that the dollar overdrawals of the previous years need not be reimbursed. At the time of 1948 Agreement India's 'hard' currency deficit was estimated between $ 160 and $ 180 million. She was expected to reduce her deficit to the former figure and to finance the rest of it by borrowing $ 100 million from the International Monetary Fund. Actually India's exports proved to be substantially lower and her imports much higher, so that her 'hard' currency deficit has bean provisionally put at $ 217 million. To meet this deficit India borrowed during this period $ 56 million from the I M F. The U K agreed in February, 1949, to advance India the necessary 'hard' currency as an overdrawal till the next agreement. This overdrawal was estimated on June 30, 1949 to be $ 84 million. Under the February arrangements this overdrawal had to be reimbursed. It has now (July 1949) been agreed that this amount need not be re-imbursed.

To guard against the widening of the 'hard' currency gap, irrespective of her export earnings, India is required to limit her imports from the dollar area to 75% of the amount she spent on imports in 1948 This, however, is exclusive of any import she may finance by loans from the International Bank for Reconstruction and Development.

It cannot be denied that the 1949 Agreement is considerably more liberal than the previous year's agreement. But it is feared that, considering India's balance of payments position, the amount of sterling releases, especially the convertible portion of it, may yet prove inadequate. This position is undoubtedly very grave today, as her exports have shrunk, whereas there is no near prospect of her being able materially to cut the imports, especially from the dollar area. India has to import huge quantities of food and a very large quantity of capital goods for her development projects. The prices in the U.K. compare unfavourably with those in the dollar area. It will be obviously not in India's interest to confine her purchases to the sterling area. There is, therefore, a limit beyond which we cannot cut our dollar imports without endangering the economic and political stability of the country. India occupies a key position and is thus entitled to every consideration from the U.K. and the U.S.A. So far India has been meeting trade deficit by heavy withdrawals from the I.M.F. But she cannot go on doing this indefinitely especially because higher rate of interest has to be paid with increased borrowings. The U K. is building up a Welfare State and can certainly afford to show better appreciation of India's needs and difficulties.

We should, however, remember that the settlement of Sterling Balances, however satisfactory, is no answer to the country's trade problems, which can be solved only by increasing our export earnings.

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